

Mr 17/25

INDEXED

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

CONTENTS

Europe, the Covenant and the Protocol

The Gold Standard

China in Evolution

Volcanoes in Industry

✓ The President, the Secretary of State and Senator
Borah

Ireland as it is

India: The Political Chaos

United Kingdom: Current Politics

Canada:

The Reluctance to co-operate in Foreign Affairs—

*The Results of the 1921 Census—The Canadian
Sales Tax*

Australia:

The Draft Protocol and the White Australia Policy

*—Government Assistance to Exports—The Victorian
Labour Government*

South Africa:

*Provincial Finance and Education—“Lord de
Villiers and his Times.”*

New Zealand:

*Current Politics—Export Control—The Rural
Credit Problem—Exchange Rates*

MARCH

MCMXXV

NUMBER 58

Price 5/-



EUROPE, THE COVENANT AND THE PROTOCOL

IN the last few months two subjects of great importance to the British Commonwealth have come to the front. One is a new proposal for the stabilisation of Europe and the prevention of war represented by the draft Geneva Protocol. The other is the problem of French security and the evacuation of the Rhineland. They are very intimately connected, for the Geneva Protocol is, from one point of view, an attempt to substitute a general guarantee by the British Empire of the whole structure of the Paris settlements for the more limited guarantee to France afforded by the temporary occupation of the bridgeheads over the Rhine.

It is not proposed in this article, however, to discuss either of these questions in detail. The Geneva Protocol was dealt with in the last issue of this review. The Rhineland question will be reserved until some future issue. But the discussion about these matters has raised a more fundamental question still, affecting the Covenant of the League of Nations, and the very basis of the external policy of the Commonwealth. Ought we to enter into any obligations whatever which will give to some outside authority, the League of Nations, the World Court, an arbitral body, an ally, the right of deciding what our action, in war or in peace, should be? Or should we, while co-operating as actively and as vigorously as possible in international affairs, make it a condition of such co-operation

Europe, the Covenant and the Protocol

that every Cabinet and Parliament must retain the clear right, in every case, to decide on the action it should take and the policy it should pursue? Let us examine in the first place the position in which we stand under the Covenant of the League.

I. OUR OBLIGATIONS UNDER THE COVENANT

THE Covenant of the League of Nations, which was drawn up on the assumption that all the great civilised nations would be active members, imposes upon its signatories certain very definite obligations. These obligations may be briefly summarised as follows :

(1) Members are bound in the event of any dispute between themselves likely to lead to a rupture to submit it either to arbitration, judicial settlement by the World Court or enquiry by the Council, and not to go to war until three months after the award or the report. The award must be made within reasonable time and the report of the Council within six months.

(2) Members are bound to carry out an arbitral award or judicial decision on matters recognised as suitable for arbitration, and they are bound not to go to war with any member which complies with such award or decision, or with a unanimous report by the Council on any international dispute whatever.

(3) Any member which goes to war in disregard of the above-mentioned obligations *ipso facto* commits an act of war against all other members, which are bound immediately to sever all trade and financial relations and prevent all financial, commercial and personal intercourse between their own or any other nationals and such a member. It is the duty of the Council to recommend what military and naval action members should take in such case.

(4) In disputes where one or other of the parties are not members of the League they must be invited to accept the

Our Obligations under the Covenant

obligations of membership, and if they refuse and go to war against a member all members are bound to bring into force against them the sanctions mentioned in Clause 3 above.

(5) Finally, the members, under Article 10, are bound to "respect and preserve as against external aggression the territorial integrity and existing political independence of all members of the League."

It is evident that these are very serious obligations, and the fact is that neither the English-speaking nor any other members of the League are likely to live up to them. The truth of this can be seen by considering some of the practical consequences which these obligations imply. There are certain obvious danger spots in Europe to-day. There is the Danzig corridor, which cuts off East Prussia from the rest of Germany. There is the Polish-Russian frontier, which includes in Poland vast tracts inhabited by Russians, and which was seized by Poland, contrary to the judgment of the Peace Conference, after her march to Kieff in 1920. There is that part of the Tyrol incorporated in Italy. There are the frontiers of Hungary and Bulgaria, which their inhabitants have sworn never to accept. There is Bessarabia.

We need express no opinion as to the merits of these disputed questions, but in every case, under the Covenant, the nations of the British Commonwealth are bound "to preserve as against external aggression" the existing frontiers; they are bound to insist on a delay, which may amount to nine months or more, before armed action takes place, and themselves to take sanctions against any State which refuses such delay and goes to war. This means that every member must declare a state of war, for sanctions of any kind, even economic sanctions alone, can only be taken as the result of a declaration of war. Moreover, it is now generally recognised that economic sanctions by themselves will be quite ineffective, and that if the members of the League are to make their pressure effective, it

Europe, the Covenant and the Protocol
will only be because of the military or naval sanctions that lie behind.

Do the nations of this Commonwealth really intend, automatically and perpetually, to guarantee the existing Polish-Russian frontier, or all the other contentious frontiers in Europe, against attempts by Russia, Germany, Hungary or Bulgaria, to secure some rectification ? Supposing these powers cannot obtain any satisfaction by voluntary agreement, and prepare to make their demands good by force, do we intend to march troops to Eastern Europe, automatically and irrespective of our views about the merits, to defend them ? If so, well and good. If not, the sooner we make it clear that we do not intend to accept such an obligation the better. It is neither honest nor conducive to world peace that European stability should rest upon the belief that we or other nations will fulfil obligations which we shall not live up to when the call comes.

What is true of Europe is much more true of the rest of the world. Do we mean to preserve the frontiers of China, or the Central American States, or Persia against external aggression ? And are we prepared to undertake economic or military or naval sanctions against members in those parts who come to blows before complying with all the League procedure for the settlement of international disputes, irrespective of the merits of the issue, and just because of what is written in the Covenant ? Obviously we are not. Surely, therefore, it is better honestly to say so now.

Finally, under the terms of the Covenant as it is to-day, if the United States gets into a quarrel with any Central American State or with Japan, we are bound to take sanctions against her if she refuses to comply with the procedure laid down in the Covenant and goes to war. Do we mean to bind ourselves automatically to do this ? Of course not. Then surely it is both wiser and more honest to say so now.

The Defect in the Covenant

It is obvious that we do not mean and cannot mean to live up to the Covenant of the League as it was originally drafted. This is partly because later experience has shown that the proposals of the original Covenant were too ambitious in themselves, even on the assumption that all nations were loyal and enthusiastic members of it. It is partly because the League itself, as originally conceived, has never come into being, for three of the greatest Powers in the world, the United States, Germany and Russia, are not yet members of it. Moreover, it is certain that none of the other members of the League will live up to these obligations either.

II. THE DEFECT IN THE COVENANT

THE one serious defect in the Covenant, a defect which experience and the discussions about the Protocol have now made clear, is the element of compulsory obligation, the attempt to promote peace by binding members to take economic or other sanctions, under an automatic legal process, and irrespective of the merits of the dispute in question. The British Commonwealth is concerned, and deeply concerned, in disputes over the Danzig corridor, the Russo-Polish frontier, the Hungarian or Bulgarian boundaries, Bessarabia, and the Tyrol, the position in China or Persia or Central America. All these questions affect it either directly or because any outbreak of war over them affects international trade and might expand into a world war. But its attitude towards them must depend upon its view of the merits of each case when it arises and of its effect on its own vital interests. If it thinks that Poland has no right to vast areas inhabited by Russians, it is useless to try to bind it automatically to take sanctions against Russia in order to preserve the territorial integrity of existing Poland intact. If it thinks that Hungary has been deprived of its legitimate rights under

Europe, the Covenant and the Protocol

the treaties, it will never go to war to maintain an injustice. And similarly with every dispute in every part of the world. The vital matter in every case is the merits, and it is their own view of the merits, and not any legal obligation, that will and ought to decide the action which members of the League will take to enforce compliance with the terms of the Covenant on their neighbours.

This criticism of the Covenant in no way implies any lack of support of the League of Nations. The League of Nations is by far the most effective and hopeful instrument for the prevention of war and the promotion of international understanding that the world has yet seen. Its main features, the Council, the Assembly, the Secretariat, the World Court, the mechanism for arbitration and inquiry, the International Labour Office, are steadily increasing in utility and effect, and ought to be increasingly employed as the channels for international intercourse. Without the League there would be no hope of averting another world war. But, in our judgment, the compulsory sanctions are a hindrance and not a help to the League. They are certainly the principal reason why certain great nations stay out of the League.

The essential thing is not to try to tie the hands of members beforehand, in accordance with some automatic formula or obligation, but to provide machinery which, with the greatest possible speed, will give publicity to all the facts, will educate and mobilise public opinion about them and will provide as long as possible a delay before hostilities can break out. That is the only way in which democratic peoples will ever take effective action in international affairs. Autocracies can declare war and make peace, and the people will follow. But self-governing peoples will only assume the terrible responsibility of doing things which may lead to war when the rights and wrongs are understood, and a moral and not a mere legal obligation to act appears.

The main problem of the League procedure centres

The Defect in the Covenant

about the problem of securing delay. Yet, consider the futility of trying to bind the hands of members on that central point. If adequate delay can really be secured after notification of a dispute likely to lead to war, the greatest menace to the general peace of the world will have been removed. If the League can secure such delay and the reference of the matter in dispute to a commission of inquiry, or arbitration, for full public investigation and report, even though the conclusions of that commission are not binding, it will succeed in its main purpose. For nine months' delay and public inquiry into the merits will in nine cases out of ten lead to one of three results. Either the dispute will be amicably settled, or the rest of the nations will combine to insist, with overwhelming force, on acceptance by one of the parties of a just solution, or if they are divided in opinion about the merits, they will agree on measures which will isolate a local appeal to arms, and so prevent it spreading into a world war.

The practical difficulty in securing delay arises over the question of how one or both parties to a dispute are to be prevented from prejudging the ultimate result by secret or overt preparation for war, by accumulating munitions or supplies, or by seizing strategic points which will give it the certainty of victory if war breaks out. For instance, the issue of the late war depended enormously on the relative position of the British and German fleets in the North Sea, and the French, German or Russian armies on land, on the day that hostilities actually broke out. Its length and the question of victory were ultimately determined by the accumulations of food, raw materials and other essential supplies, and the maintenance of access to them in other countries. The whole course of the great war was altered by the successful escape of the *Goeben* to Constantinople, in the early hours of the conflict. Whenever a really threatening situation arises, every nation, even though it is loyally willing to accord adequate delay, must anxiously look to its own preparations in case pacific

Europe, the Covenant and the Protocol

mediation does not succeed, and still more anxiously scrutinise the preparations and movements of its rivals.

The Council of the League no doubt will endeavour to prevent mobilisation or preparation, and to maintain the *status quo*, and this is provided for under the draft Protocol. But how is it to do so? It will be extremely difficult for it to find out the facts in time, and facilities granted for investigation are likely, at such a time, not to be too good. It will have absolutely no means of enforcing its view save an appeal to public opinion, and that will be very ineffective in stopping preparations for self-defence if the risk of war is drawing near. It is manifest that the attempt to commit nations legally to holding their hands for nine months from any form of preparation will simply play into the hands of the less moral Powers to the detriment of those who take their obligations seriously. Obviously the only course is to leave every nation to be the final judge of what action it should or should not take in such circumstances, with the League endeavouring to prevent mutual counter-preparation by bringing home to both sides that a move by one party will instantly be followed by a corresponding move by the other, and trying to induce the other members of the League to show unmistakably that they do not intend to allow any one State to prejudge the issue by taking the law into its own hands.

There is still another reason for caution about accepting compulsory obligations under the Covenant. Though the League is supposed to make itself responsible for trying to settle every threatening international dispute, in point of fact practically none of the more serious problems which have arisen since 1920 have yet been handled by it. Naval disarmament and the problem of the Pacific were dealt with at the Washington Conference. Negotiations with Russia still continue direct between Moscow, London, Paris, Rome, Berlin, Peking and Tokio. All the more serious problems affecting Germany, the Ruhr, the Rhineland and reparations are dealt with between the Allies and

The Defect in the Covenant

Germany direct. The question of whether there is to be peace or war in the future, therefore, still depends far more on the outcome of these diplomatic activities than on the observance or otherwise of the legal obligations of the Covenant. In fact, the legal obligation to take sanctions under the Covenant may require members to act in a way directly contrary to what their ordinary diplomacy requires, and so may increase and not diminish the risk of war. The whole problem of international organisation for peace is in its infancy, and the acceptance of automatic compulsory obligations in any form to-day is clearly premature.

Whichever way we approach the problem, therefore, we are driven to the conclusion that it is essential to disembarrass the League system of automatic sanctions in every shape and form. The League is fundamentally a conference system between independent sovereign States. Its effectiveness depends partly on the facilities it affords for consultation between the principal Ministers of nations and the mechanism it has created for inquiry, arbitration and judicial inquiry, and partly on the willingness of its members to take action which will deter nations from trying to solve their problems by force, and encourage them to adopt pacific means. The worst way of attaining this end is to try to tie the hands of members to specific obligations irrespective of the rights and wrongs of the case or of the actual circumstances at the time. The best way is to leave the full responsibility for decision about their action on the individual members, while affording to them the fullest possible opportunity of understanding the issues at stake, and the reasons why they should act.

We therefore urge that the nations of the Commonwealth should make a declaration at the earliest possible time under Article 1 of the Covenant that they do not intend to be bound by any obligations to use sanctions, or to defend frontiers, of an automatic or legal kind, and that any sanctions which they do take in conjunction with the

Europe, the Covenant and the Protocol

League and under the Covenant will be based upon their own free judgment of the merits of the dispute and in the light of the circumstances of the time. This has always been the Canadian line. It may be replied that debates in earlier Assemblies of the League have whittled away the significance of some of the Covenant obligations. That may be so, and we have no doubt that a clever lawyer could drive a coach and four through the Covenant. But we cannot conceive of any more certain way of making bad blood in Europe than to lay ourselves open to the charge of sharp practice. It is far honester and far wiser to make our position unmistakably clear at once.

III. THE QUESTION OF THE PROTOCOL

IN certain respects the procedure which is provided under the Protocol for dealing with a threatening dispute seems preferable to that provided under the Covenant. It represents the improvements natural after five years' practical experience in working the League. But the Protocol contains the same fundamental defect as the Covenant, only in a much intensified form.

The Protocol* provides that any State which goes to war in defiance of its obligations under the Covenant or the Protocol is an aggressor. It also provides that in the event of hostilities any State shall be presumed to be an aggressor which (*a*) has refused to submit a dispute to the arbitral or judicial procedure for settlement which it lays down, (*b*) has refused to comply with an arbitral or judicial award so obtained, or a unanimous report by the Council, or (*c*) has made military preparations during the negotiations for pacific settlement. The Council is bound to call upon members to apply economic, military and naval sanctions

* The above, of course, is only a brief summary of the very complicated provisions of the Protocol. Readers will find a very complete analysis in *THE ROUND TABLE* for December 1924, No. 57, p. 48.

The Question of the Protocol

against the aggressor State, and members are automatically bound to take such sanctions in loyal and effective co-operation with the Council. Thus the Protocol differs from the Covenant in that it leaves no choice whatever to the members. Every member is bound to a procedure which not only compels it to submit every dispute to arbitration, but also determines by an automatic process when and on what side it shall go to war.

Now, it may be a good thing that nations should take sanctions to compel a disputant to give time for pacific settlement ; it may be a good thing that they should be ready to go to war to enforce an arbitral award or to prevent preparation for war ; in our view, indeed, there is little chance of lasting peace in the world until the nations are ready to take far more risky and vigorous action against international malefactors than they are at present. But we are convinced that it would be both wrong and ineffectual to try to make nations do so, irrespective of the merits of the case, and as the result of purely legalistic or automatic definitions of an "aggressor."

Do we mean automatically to go to war with Russia or Poland because of an "automatic" definition of which is the "aggressor" in a dispute ? Do we mean automatically to go to war to enforce obedience to the Protocol or the judgments of the arbitral court on the Asiatic or the American States in the event of hostilities in Asia or America ? Do we mean to go to war to enforce compliance with the Protocol procedure or an arbitral award against great non-member States, the United States, Germany or Russia, if war breaks out between them and a member of the League ? Of course we do not. Nor, if we study the question, do any of the other great Powers, neither France, nor Italy, nor Germany, nor Spain, nor China, nor Japan, nor Brazil. The whole idea of wars being "automatically" ordered from Geneva or anywhere else, as a contribution to world peace, is utterly chimerical and ignores the fundamental truth that no nation can or will take action involving the

Europe, the Covenant and the Protocol

risk of war, unless the people themselves understand the issues and believe that it is their duty, or to their interest, to act.

As in the case of the Covenant, so in the case of the amendments to the Covenant now proposed under the Protocol, we suggest that the right line for the British Commonwealth is to undertake to submit any non-domestic dispute with any other member either to arbitration or judicial settlement, or inquiry by the League as provided under the Covenant. It must, however, reserve complete freedom to decide for itself, in the light of the issues and circumstances of the time, which of these three methods is to be applied, whether it will comply with an award (other than a judicial decision by the World Court) and what action, if any, it will take with others to enforce acceptance of the League procedure.

Freedom is the basis of the organisation of the British Commonwealth of Nations. No other basis would survive for an hour, and every attempt to bind any nation of the Empire beforehand, as to what it will do when war or any crisis arises, has invariably and inevitably failed. It is also the basis of industrial organisation. Neither employers nor employed will agree to compulsory arbitration, and experience shows that it breaks down wherever it has been attempted. It is the same with the League of Nations. Every attempt to make arbitration universally compulsory will only make nations turn away from the League.

IV. THE EUROPEAN PROBLEM

THE importance of these considerations can best be realised, perhaps, by examining how the Covenant or the Protocol procedure applies to one of those great international problems which lie ahead, and which have to be solved if we are to escape another world war. Let us consider briefly the fundamentals of that European problem which

The European Problem

has been brought recently to the front by the correspondence about the evacuation of the Rhineland, and the speeches of M. Herriot and Herr Luther about security.

At present the situation in Europe is stabilised, not by the League of Nations, nor by the terms of the Treaty of Versailles, it is stabilised by the fact that, according to figures given to Parliament by the War Office last June, France has an army of 700,000, Poland of 250,000, and Czecho-Slovakia of 150,000, and the Allies occupy the Rhineland and the bridgeheads over the Rhine, while the German army is limited by treaty to 100,000. South-Eastern Europe is stabilised by a similar preponderance on the side of the Little Entente over Hungary and Bulgaria. Russia, which otherwise would have something to say, is impotent owing to the economic weakness caused by Communism, despite a nominal army of 1,000,000.

Now, this system may stabilise Europe for perhaps another five or even ten years, as provided for under the treaty. But it cannot be permanent. It may be upset by Germany. Germany will never submit to her present position of subordination for ever. She would not be the great nation she is if she did. Eventually she will demand the right to the free control of all her own territory, and to deal with her neighbours on equal terms. She will demand the evacuation of the Rhineland and that she be allowed either to bring her own armaments up to the level of those of France or that France bring her armaments down to the German level. And if those demands are persistently denied to her, she will begin to prepare to recover her equality and independence by force of arms, as she did a century ago. And what is true of Germany is true also of Hungary and Bulgaria.

Or the system may be upset by Russia. Russia has only to develop some of her great latent strength and to begin to make friends with the overawed nations of Central Europe, for the Eastern end of the German encirclement to become completely paralysed. If and when that day

Europe, the Covenant and the Protocol

arrives, it will be still easier for Germany to extricate herself from the subordinate position in which she finds herself to-day, or in collusion with Russia to remodel the frontiers of Eastern Europe at their joint will.

The notion that Europe can be given permanent peace by stabilising a situation in which two of its greatest peoples are prostrate on their backs is an illusion. Sooner or later, probably sooner rather than later, the present European political system, which rests upon the military preponderance of France and of her allies, must give place to a more natural equilibrium, an equilibrium which will represent a balance between the real strength of the peoples of Europe. The restoration of this more natural equilibrium will probably be accompanied by a readjustment of some of the features of the settlement of 1919. When Russia, Germany, Hungary and Bulgaria recover their equality in status and power with their neighbours, they will certainly initiate some discussion about the Polish corridor, the Russo-Polish frontier, about the Hungarian and Bulgarian and Rumanian frontiers, before that kind of stability is reached which is based upon a real and final acceptance of the *status quo* by majorities everywhere. That discussion need not result in any far reaching modification of the Versailles settlement of European boundaries, for these boundaries, despite defects in detail, are much the best that have ever been made. But the new political map of Europe will not be secure until it represents a voluntary agreement between all the nations concerned, and not one imposed and maintained by the military power of one victorious group.

Nor will there be a basis for any lasting agreement for the limitation of armaments until this natural equilibrium is restored. If there is ever to be a European agreement for the limitation of armaments it will be an agreement on the same fundamental lines as the Washington agreement about naval armaments. A ratio will be fixed between the armies of the Powers, roughly in proportion to their relative strength, taking geography and all sorts of other necessities

The European Problem

into consideration, a maximum will be laid down, and nations will agree not to rise above their ratio for a definite but limited period. It is perfectly clear that we are not yet in sight of any such agreement in Europe on these lines. The leading Powers in Europe are France, Italy, Germany and Russia. Is it conceivable that France will agree to any system, under present conditions, which will equalise the military establishment of herself and Germany ? The recent speeches of M. Herriot, who leads the forces of the Left, which have been taken to mean that France will only evacuate the Rhineland when she is given an alternative guarantee of security, make it clear that she will not.

We can now see some of the deeper difficulties which underlie the Covenant and the Protocol, the efficiency of which depend, as their own terms declare, on a universal agreement for the limitation of armaments. The compulsory clauses of the Covenant, and still more the compulsory clauses of the Protocol, are in substance a military guarantee of the frontiers and political *status quo* in Europe. The Covenant explicitly guarantees the frontiers, and binds members to bring sanctions into operation against any State which goes to war in contravention of its obligations. The Protocol goes much further, for it compels members automatically to go to war if hostilities result from the judgment of an arbitral body, whose decisions must be taken on the general basis that the Treaties of Peace represent the public law of Europe.

Now, it may be a good thing for the British Empire to stand firmly behind the settlement of 1919. It probably is, for it means stability and peace in a world still rocking from the shocks of the great war, and if it disinterested itself entirely, it would probably spell not peace, but renewed chaos and war. But that is quite a different thing from accepting any kind of legal obligation to maintain existing frontiers in all their details, just and unjust, as we do under Article 10 of the Covenant, or to enter into an

Europe, the Covenant and the Protocol

arrangement which will compel us to go to war to support the authority and enforce the award of an unknown arbitral body regardless of what we may think of the merits of the award.

As a matter of fact, it is as inevitable as it is right that the weight and influence of the British Empire should be cast into the diplomatic scale during the process of bringing Europe back to a political equilibrium again. If that gradual readjustment of the political balance in Europe, which is inevitable as Germany and Russia recover, and which has already begun, is to take place without war, if Europe is to arrive at a political system and at any solution of the armaments problem, the influence of the British Empire will certainly have to be actively and powerfully exerted at many a crucial time. But there is all the difference between the influence of the Empire being thrown into the scale at Geneva or elsewhere, in accordance with the deliberate views of its own experienced statesmen, and its being used at the discretion of five arbitrators sitting at Geneva.

For that is what the Protocol system would mean. Every modification in the present artificial and unbalanced political system of Europe, which could not be effected by ordinary voluntary agreement—and that would be the case over nine-tenths of the real difficulties—would automatically be referred to an arbitral board under penalty of war, and in the last resort the decisions of this board would be final and compulsorily enforceable by all the members of the League by war. Is it really going to contribute to justice or peace in Europe automatically to take the decisions of these fundamental questions out of the hands of the statesmen of the time, who alone can speak authoritatively for their nations and know what is and what is not practicable, and entrust the decision to five unknown persons inexperienced in the public life of Europe? For experience shows that it is impossible to put national leaders on such bodies because other nations question their impartiality.

The European Problem

There may often be times when it is a good thing to refer disputed issues to some form of arbitral decision. But the essential condition of success for arbitration is that both the time and the terms of reference should be agreed between the leaders of the nations. The idea that it will help international peace to create a system which will automatically take control out of the hands of the responsible people at moments of crisis and put the decision both of the question at issue and of whether nations should go to war or not in the hands of people responsible to nobody, is manifestly illusory.

It is well to remember sometimes what the fundamental purpose of the League of Nations is. It is to bring the representatives of the nations of the world together at regular intervals for the interchange of ideas and the discharge of certain specific common business, and to act as a special international body with authority to intervene to try to settle international disputes amicably when the danger of rupture has arisen. These are immensely important functions. But the greater part of international business can never go through the channels of the League at all. We have seen that the main issues of our time, the Franco-German, the Russian, and the limitation of armaments questions, have never come before the League. The Protocol is an attempt to take the decision of those vital matters, upon which the destinies of the nations and the peace of the world depend, out of the hands of Foreign Ministers and Prime Ministers, out of the hands of Parliaments and electorates, and entrust them to an unknown body of arbitrators. There is no way of advance that way. The world, the League itself, still consists of separate sovereign States, and until nations are willing to merge their sovereignties into a single world federation, the only way in which progress can be made is that the League machinery should abide by its real purpose, that of facilitating and promoting agreement, and not endeavour to put on prematurely the compulsory powers of a world State.

Europe, the Covenant and the Protocol

This article is in no sense a plea for complete neutrality or isolation from Europe on the part of the British Commonwealth. That policy is yearly becoming more and more impossible and more and more dangerous. We are opposed both to the policy of entangling the Empire in the permanent political structure of Europe and to obligations which will bind it to act in any part of the world at the discretion of the League or any arbitral court. But we are in favour of a vigorous and vigilant foreign policy acting as far as possible through the League. The old idea that nations could protect their security and peace by avoiding all entanglement with international problems was finally exploded by the world war. It is obvious that the only way to preserve peace is a foreign policy which seeks not to avoid difficulties but to grapple with them and solve them before they have become unmanageable and public opinion has crystallised into fighting positions.

V. THE IMPERIAL PROBLEM

THE consideration of this question, however, like that of every other aspect of the international problem, brings us back to an issue we have often discussed before—the lamentable condition of our present day machinery for inter-imperial consultation. There is no doubt that the really important thing from the point of view of the future peace of the world is not the details of the international structure at Geneva, but the character of the policy pursued there and elsewhere by the great Powers—and especially by the British Commonwealth. Yet, by the admission of all its Governments there is to-day no adequate means of consultation about the world problems which confront them. So impressed was Mr. Ramsay MacDonald by this when in office, that he initiated correspondence with the object of finding a remedy. It came to nothing.

The Imperial Problem

Mr. Baldwin's Government, confronted by the necessity of making up its mind about the Protocol, proposed a special Imperial Conference. It was refused, and rightly refused, for it is not the right way of dealing with current international difficulties. And so the nations of the Empire are left with nothing but the cable and the post office as a means of consulting about their most vital interests, a system which every Prime Minister has admitted to be hopelessly inadequate, and which is far less efficient than the system which obtains between all foreign Powers.

And now the nations of the Commonwealth are confronted not only by the problem of the Protocol, but by the whole question of European readjustment—to which allusion has been made—a question obviously involving the risk of war, and whose peaceful solution largely turns on the wisdom and firmness of the British attitude. And they still have no effective means of consultation, although Mr. Ramsay MacDonald, when Foreign Minister, said that our present system "renders immediate action extremely difficult, more especially between conferences on occasions when such action is imperatively needed." It is surely time that the question of making the means of inter-Imperial consultation as effective as that which obtains between foreign Powers should be seriously attended to without delay.

Since our last issue a series of articles have appeared in the London *Times* on this problem. They make clear the risks and defects of the present system, and make certain proposals for improving the present system of inter-Imperial communication, the most important of which is that the Colonial Office should be side-tracked on foreign problems and that the task of consulting with the Dominions about foreign policy should be centred in the Foreign Office direct. We propose to return to this problem at an early date, but reprint the conclusions set out in the final article* for the information of our readers, because its ideas about practical reform seem to us well worthy of consideration.

* See *The Times*, February 6, 1925.

Europe, the Covenant and the Protocol

APPENDIX

CONCLUSIONS OF ARTICLES IN THE LONDON *TIMES* ON "THE DOMINIONS AND FOREIGN POLICY"

(1) The first conclusion is that the business of consulting with the Dominion Governments about foreign affairs, the most important business which now concerns the nations of the Empire, ought to be transferred from the Colonial Office to the Foreign Office. Proposals have been made for transferring Dominion business from the Colonial Office to the Lord President of the Council. That may or may not be a good thing so far as the mass of routine business is concerned. But, whether that is done or not, the thing that matters most is that all intercommunication about foreign affairs should centre directly in the Foreign Office itself.

(2) The second conclusion is that the relations between the British Foreign Secretary and the Dominion Prime Minister, or Minister for External Affairs, ought to be conducted on lines analogous to those followed in ordinary international diplomatic intercourse. It has often been suggested that some kind of standing Imperial committee or secretariat should be established in London, as a convenient clearing house for inter-Imperial business. Mr. Bruce made the suggestion again only the other day. A standing secretariat to prepare the work of the Imperial Conference, as the League of Nations secretariat prepares the work of the Council and the Assembly, is badly needed to improve the working of our only Imperial organism. But a permanent staff of clerks would have little effect on the kind of consultation which is needed about Foreign Policy. And if the secretariat were something more, it would be a challenge to the independence of the Dominions. There is nothing of which the Dominions are more afraid than the creation of some new-fangled Imperial Areopagus which in some way can come to conclusions, so that one fine day they awake to find that they have been morally bound in an international crisis by conversations or resolutions in London of which they knew little, rather as Great Britain found its hands tied by prior diplomatic conversations with France at the outbreak of the war. There is nothing of which the Dominion Prime Ministers are more suspicious than that their High Commissioners should begin to act as absentee Foreign Ministers, speaking as plenipotentiaries for their own countries.

The essence of the case is to remember that the principals in every conversation about Imperial policy are not the Foreign Secretary or the High Commissioners, but the Cabinets. The High

Appendix

Commissioners, therefore, should be treated by the Foreign Secretary on the same basis as he treats the Ambassador of an Ally—as a personal intermediary between himself and the Government at a distance, and not as a plenipotentiary empowered to speak on his own account. To make this fundamental and most vital point still more secure, it might well be recognised as a normal rule that the Foreign Secretary has his interviews with the High Commissioners separately, and not together, except in cases where the Prime Ministers definitely authorise joint consultation, and that no Foreign Office papers are circulated to them except such as each Prime Minister specifically asks should be so circulated. That, of course, would not prevent joint meetings from being occasionally held for special and agreed purposes.

It may seem as if insistence on these details is pettifogging. It is, in fact, the very essence of the case. There will be no effective inter-Imperial consultation, and we shall drift on in the dangerous position in which we are to-day, unless absolute guarantees can be given that no attempt is being made, consciously or unconsciously, to create some new centralising Imperial authority, or some subtle means of getting the Dominions committed to foreign policies in the dark, and that what is sought is simply to make the intercourse between the six Cabinets of the Empire, each of which retains its freedom of action, at least as efficient as that which obtains between friendly foreign Governments. If anybody doubts this let him go and spend a few weeks in Ottawa, Cape Town, Melbourne or Canberra, Wellington, and Dublin. The practical change which is proposed is that the Foreign Secretary should add five to the number of Ambassadors whom he has regularly to see, and that the High Commissioners should be accredited to the Foreign Office on terms substantially similar, but naturally more friendly and intimate, to those of the Ambassador of France or of the United States. This step, of course, would not prevent the Prime Ministers from communicating direct with one another whenever they chose.

(3) The third conclusion is that the representation of Great Britain in the Dominions and of the Dominions in Great Britain ought to be improved. The essence of international intercourse is that there is a two-way channel of personal intercommunication. In Imperial affairs there is not even an effective one-way channel. At present the Dominion Governments are half blindfold because their representatives in London are appointed for commercial and not political or diplomatic reasons, and are accredited only to the Colonial Office. On the other hand the British Government is half blindfold because its representatives in the Dominions are appointed to discharge constitutional functions only. It has sometimes been suggested that the Dominions should accredit a

Europe, the Covenant and the Protocol

special diplomatic agent in London, and that Great Britain should accredit an equivalent agent to each Dominion capital, to improve intercommunication. Australia, indeed, has just appointed an official on the High Commissioner's staff in London to keep it informed about foreign affairs. This step, which is a first stage in building up a staff of Dominion experts in foreign affairs, is all to the good. But it cannot solve the fundamental difficulty. There can be no real consultation between a Foreign Minister and a subordinate official. Consultation can only take place between equals—Ministers and Ambassadors.

The more sensible and practical course would seem to be to remodel the functions both of the Governor-Generals and of the High Commissioners. There is now no question of any Governor-General trying to interfere in the complete autonomy of the Dominion over which he presides, or of Great Britain trying to make him do so. The question of status and autonomy belongs to the past. On the other hand, the need of effective representation of a diplomatic character is rapidly increasing. Why should not the Governor-General in future be appointed mainly for his diplomatic qualifications, and be given the title of High Commissioner, as is the case already in South Africa, as well as that of Governor-General? And, similarly, what could be more simple than gradually to select High Commissioners for their diplomatic qualities, accredit them to the Foreign Office, and transfer their purely commercial functions to another official? These changes would give to the nations of the Empire the inter-Imperial diplomatic machinery for consultation which it does not possess to-day.

(4) The last conclusion is that the Dominions ought to obtain access to direct information about the international situation. The primary attribute of nationhood, as the Dominions proved in the great war, is readiness to take a share in the risks and responsibilities of international life. The nations of the Empire prefer to do this as a group, because collective action gives greater security to all and makes their action more effective both in promoting peace and in solving the world problems of the day. But it is impossible to expect rapid and sane thinking about international problems or united and effective co-operation in Imperial foreign policy unless they are themselves continuously and directly in touch with the realities of the outside world. It is not enough that they should get their information through the spectacles of the British Foreign Office, for they will never consider such information as completely free from British bias. They must be able to get information or at least check it for themselves. To-day the Dominions have fewer direct sources of information about the outside world than even the smallest European or American Powers.

Appendix

How they are to get it is an exceedingly difficult problem to solve. It has been agreed that they can appoint Ministers to foreign capitals, and the Irish Free State has already a Minister in Washington. But there are many practical difficulties about precedence—connected with the question which of two or three Ministers speaks for the Empire, and so forth—which have hindered the development of the idea. Canada has solved the problem, so far, by sending a Cabinet Minister to Washington whenever important questions arise, and leaving ordinary routine to be done by a Canadian official in the British Embassy.

Two suggestions, however, seem to be clear. One is that the Dominions ought to be enabled to make more use of the world-wide and expensive machinery of the British Diplomatic Service, as a direct source of information on their own account. The other is that the right way of doing so is for each Dominion to build up a staff of foreign experts of its own, paid by, and responsible to, itself, which could be dovetailed, in some way, into the British system and used as a channel through which direct information could reach the Dominion Governments from the principal capitals of the world. Why, for instance, should not both Canada and Australia appoint an official of their own to work in the Embassies at Tokyo and Peking and keep them informed of what is going on on the other side of the Pacific Ocean?

THE GOLD STANDARD

THE return of this country to the gold standard seems now likely to be an accomplished fact in the near future. As these lines are written, the paper pound has risen in value to \$4.79½, whereas the gold pound is equal to \$4.86½. The British currency is therefore within 1·47 per cent. of its gold value. This being so, there can be hardly any question but that before long the British authorities will attempt once more to make our currency convertible into gold and London a free gold market. Whatever may be the risks inherent in this policy, the influences, psychological and other, compelling them to attempt it, as soon as the conditions seem favourable, are too strong to be withstood. It might be thought, therefore, somewhat late in the day to consider whether the advantages of this step are likely to be greater than the disadvantages, whether there are alternatives, and generally what its results are likely to be. It may nevertheless be worth while to give a bird's-eye view of the whole problem, which, while it is little understood, is exceedingly important. It is easy to discuss it in a manner which those familiar with its elements would understand; it is not easy to state it in a simpler, non-technical manner, which can be followed by anyone, since the subject is not one which lends itself to popular exposition. Notwithstanding this difficulty, which the writer feels acutely, an attempt to set forth the main elements of the problem simply and

What is the Gold Standard ?

concisely is made in the following pages. It is proposed to consider it under the following headings :—

- (1) What is the gold standard ?
- (2) How does it differ from our present currency system ?
- (3) What are the probable results of returning to the gold standard, and is there any alternative ?
- (4) What is the likelihood, when once we have returned to it, of our being able to maintain it ?

I. WHAT IS THE GOLD STANDARD ?

EVER since they emerged from the age of barter, human beings have required money both as a medium for exchanging one thing for another and as a standard of value with which to measure the things they use and exchange, and by means of which to ensure that debts due over a period of time are paid back at the same real value at which they were incurred. Before banking, paper money and credit were invented, the human race could only choose some one commodity or other which seemed to possess suitable qualities to act as "money," much the most important of which was comparative stability in value. Gold and silver became ultimately used by most of the world, and in the last half of the nineteenth century nearly all the great nations of the world had abandoned silver for gold. Gold appeared to possess, indeed, in a greater degree than any other commodity, the qualities required for stability—namely, those described by all the economic text books, such as scarcity, durability, a small annual output compared with the total stock, and so forth. When paper money came into use, it was not intended to replace gold as a standard of value ; it was a means of economising gold, and represented gold. As long as paper money was freely exchangeable into gold, the gold standard remained fully in force, gold and paper being interchange-

The Gold Standard

able. Under the modern refinements of banking, paper money has again been largely replaced by bank credit and by the cheque system. But so long as the legal tender on which that system is based is freely exchangeable into gold, so that anyone in the world can change any balance he has in the books of any English bank into currency and then into gold at will, the gold standard is maintained. In other words, either gold itself is used as the actual medium of exchange, or, since in all civilised countries only a minute percentage of transactions is carried out with the actual use of gold, any other legal tender or paper currency used is kept equal in value to gold by being freely exchangeable with it. Thus the prices of all commodities and the prices at which all transactions are carried through and debts paid are gold prices. One commodity is chosen in which to express the value of all other commodities. Every other commodity or service is said to be worth so much gold. And since before the war practically all the great nations of the world were on a gold basis, their price levels maintained a more or less uniform relation to one another. Other things being equal, it was not possible for gold prices, any more than for wheat prices, to vary in one country and not in the others, or, in other words, gold or wheat could not become of lesser or greater value without gold or wheat flowing out or in, in order to correct the error. Apart from very slight oscillations, representing the cost of moving gold from one country to another, the exchanges were kept at a parity with one another. For instance, since one British sovereign contains 113 grs. of fine gold, and one American dollar contains 23·22 of fine gold, one gold sovereign must equal 4.86 $\frac{2}{3}$ or, say, 4.87 gold dollars. That is therefore their "par" of exchange. If at any time the American exchange for any reason—e.g., a temporarily adverse balance of trade or an undue inflation of credit internally—rose over that figure, say, to \$4.90, this was equivalent to a fall in the gold value of the dollar and a sign that gold was of less value in

What is the Gold Standard?

the United States than in England. Gold was consequently exported to England. It was exported in practice for the same reason that most other things happen in business—namely, because there was a profit to be made by so doing. An exporter could take 4.87 paper dollars to the American mint and buy in return an amount of gold equal to the gold in a sovereign, *i.e.*, 113 grs. That gold he exported to England and exchanged for one pound sterling. He could then sell his pound sterling in the exchange market back into dollars at the rate of \$4.90 to the pound. Therefore, beginning the transaction with \$4.87, he ended with \$4.90, making thus a profit of 3 cents, or say, 1½d., for every sovereign's worth of gold he exported. On transactions running into millions this was worth doing. Similarly, if the exchange reflected a depreciation in sterling, it became profitable to export gold from England. Gold would be exported or imported in this manner from one country to another, as long as the business showed a profit. Similar influences kept all the gold exchanges at par, so that the world was not in those days disturbed by the violent and extreme changes in the internal price level of one country as compared with that of another. This was in itself an enormous gain. In general a fall in our exchange or those of other gold standard countries before the war was a symptom of one or more of several influences, either a temporarily adverse balance of trade due to seasonal requirements, an over-expansion of credit, leading to a slight rise in internal prices, and consequently to a fall in exports or greater imports, or a too low level of interest rates as compared with those ruling in other countries. All these circumstances would tend to result in money being withdrawn from the country. The consequent sale, say, of sterling in the exchange market would cause a fall in its value to the point where, as described above, it became profitable to export gold, this gold thus helping to adjust the excess of imports over exports. Thereupon the Bank of England would be forced to raise its discount

The Gold Standard

rate, leading both to money being brought here from abroad to secure the higher rate of interest and to a contraction of credit inside the country itself leading to a fall in prices, fewer imports and more exports. By this means our exchanges and our price level were kept adjusted to those of other countries.

But, though we were thus all tied to gold, how did gold itself behave, and what about its value? It is true that the various reservoirs, representing the price levels of the different countries, being joined together by the gold pipe, kept more or less level with one another. But what about the general level of all the reservoirs together? Was it constant or did it rise or fall? Were prices in general throughout the gold-using world rising or falling? In other words, was the value of gold itself stable, or was it rising or falling? And is its pre-war behaviour any criterion for the future? These are questions to which we refer in detail later. They are of fundamental importance. Yet it seems extraordinarily difficult for most people thoroughly to grasp that gold itself is a commodity subject like all others to the influence of supply and demand. Its value is the resultant of the forces of supply and demand, demand being mainly for monetary uses, but also to a considerable extent for industrial purposes. In the case of gold, however, its value is measured not by its price (for the fact that the Mint will pay £3 17s. 9d. for a standard ounce of fine gold simply means that it requires an ounce to make about $3\frac{3}{4}$ sovereigns), but by the general price level of all other commodities. At a certain level of prices, with certain habits of the public and at a given state of industry and trade, a certain amount of gold, together with the superstructure of paper currency and credit raised upon it—*i.e.*, of purchasing power—is required. If the supply of gold increases in amount, the increased purchasing power so provided will, other things being equal, increase the demand for commodities and so raise their price, or, in other words, cause a

What is the Gold Standard ?

fall in the value of gold. If, on the other hand, the demand —e.g., growing wealth and production—increases, this rise may be counteracted, or, again, if the demand so increases but the supply of gold remains the same, prices would tend to fall as gold became more in demand—*i.e.*, more valuable. But to most people gold seems always the same ; everything else in their view fluctuates in value, but not gold, just as the sun seems to go round the earth. "Money," indeed, seems destined always to throw a thick veil over the real facts of the world, which comparatively few people can see through. Yet a general change in commodity prices under a gold standard must be due to a change in the value of gold, not of other commodities, the prices of which would not be all likely to move in the same direction at the same time. One may imagine a pair of scales, one of which represents gold and the other prices. As gold increases in supply relative to demand, weighing its scale down, so prices rise ; as gold decreases in supply, relative to demand, its scale goes up, and, on the other hand, prices fall. If one were to choose a new standard of value, and in future all prices were to be measured not by gold, but by wheat or pearls or something else, most people would clearly understand that a change might take place not only in the value of each of the other commodities, but also in wheat or pearls, or whatever commodity was chosen, according to the relation between the demand for and supply of it. Naturally, if pearls became exceedingly plentiful, and if the Japanese could make pearls as easily as the Germans made paper marks, pearls would fall in value, one would have to give more pearls in order to buy anything with them, or, in other words, prices expressed in pearls would rise. Exactly the same is true of gold. Suppose an average pearl now costs £10. Suppose that the supply of real pearls were enormously increased. Then their price would fall, say, to £1 per pearl. Suppose, however, the supply of pearls remained constant, but the supply of gold were enormously increased, then

The Gold Standard

much more gold would have to be given for each pearl and the price of pearls might rise, say, to £100 a pearl, all other commodities, of course, rising more or less proportionately in price, since their prices are all measured in gold. This simple truth should be evident to all in these days, though its relation to the problem of our returning to the gold standard is seldom held in mind. We have had recently by far the most astounding examples in the world's history of the changes in the value of a currency due to its too plentiful supply. German paper marks were produced in such numbers that ultimately one gold mark—*i.e.*, one shilling—became worth 1,000,000,000 paper marks, and prices measured in paper marks were one thousand million times above what they had been under the gold standard. If an unlimited supply of gold were found and it could be mined at a very low cost, similar results would follow to gold prices. The future value of gold, whether it is likely to be stable or unstable in value, is the most important element in the whole problem of the gold standard. To this question we return later.

II. OUR PRESENT SYSTEM

IN the war the necessities of our Government led, as in the case of all other European belligerents, to the abandonment of the gold standard owing to the depreciation of our currency. All through history Governments have from time to time, especially during war, required more money than they could squeeze out of their subjects by normal measures of taxation. They have always then obtained what they wanted by depreciating the currency, in old days by debasing the coinage, in modern days by more refined methods, such as an over-issue of paper money, or, as in our case, Ways and Means Advances to the Government from the Bank of England. The Government by increasing the supply of purchasing power in the form of

Our Present System

currency or credit depreciates its value ; but since it uses the new money it issues before it has had its effect on prices, it is always, to use a golfing expression, "one up" on the public, except in extreme cases, as in Germany and Austria, when the adjustment in prices ultimately becomes instantaneous, and when in fact the fall in the value of the currency becomes out of all proportion to the amount issued.

Just as gold falls in value under the gold standard, if its production increases disproportionately to the demand, so does the "purchasing power" represented by the supply of paper currency and credit under our existing system, and for the same reason—*i.e.*, a disproportionate increase in purchasing power. If the Government, as every Government did during the war, unduly enlarges purchasing power in the form of paper money and credit, it depreciates each unit of that purchasing power, and therefore raises prices.

Our currency having depreciated during the war, we had necessarily to abandon the gold standard and prohibit the export of gold, since otherwise we should have quickly lost it all owing to the profit to be secured by such export. Our prices then ceased to be gold prices, and we have had to maintain a stable value in our currency and stable prices by other methods. We could no longer use the inflow and outflow of gold as a means of adjusting prices. For though, technically speaking, Bank of England notes and Treasury notes are convertible into sovereigns, the privilege is rendered illusory by the prohibition of the export of gold. Anyone changing notes into gold would almost stand convicted of harbouring in his mind an illegal action. Our price level is, therefore, determined not by gold but by other factors, in the main by the amount of credit granted by the big banks, and by the resulting level of their deposits. The amount of credit they grant is in turn in the long run determined by the amount of their "cash"—*i.e.*, Bank of England and Treasury notes and "cash" at (or in other

The Gold Standard

words a credit in the books of) the Bank of England. For all the banks maintain a certain more or less definite percentage between their "cash" and their deposits. Thus it is the amount of this "cash" which, within fairly wide limits determines the country's banking deposits and therefore its price level, and this "cash" is in turn largely determined by the policy of the Government and the Bank of England, though, in their turn, these are influenced and affected by the greater or smaller amount of credit which the other banks have created. The working of the system is complicated. Those interested are referred to an admirable but very condensed account of it in Mr. Keynes' *Treatise on Monetary Reform*.

Credit is always unstable. There is always a tendency of credit to expand too much or contract too much. For it is difficult for the individual banker, who by his loans and discounts is creating the credit, to see the wood for the trees. What he takes to be marks of prosperity, legitimately demanding an increase of credit, may be the results merely of too great an increase already. And what appear to be marks of depression demanding further restriction may be the results of too great a restriction already. The middle way between booms and slumps is difficult to find. Under a gold standard and with gold stable in value the landmarks are clear. But under an inconvertible system, such as we have at present, the signs are often extremely difficult to read, and great caution, foresight and courage are demanded of our central authorities.

It has undoubtedly been the object of the Bank of England and the Treasury in the last few years so to "manage" our supply of credit and currency as to maintain the greatest stability of prices without prejudicing our return ultimately to the gold par. In this policy, since the great slump of 1920, they have had a considerable measure of success, the level of prices, as Mr. McKenna recently pointed out, having been more stable in this

Our Present System

country during the last three years than in America, where prices have been gold prices. It would take too long, however, to attempt here to discuss the means by which they have accomplished this end. The only definite public step taken by the Government has been to issue in December 1919 a Treasury minute directing that the issue of currency notes in any year thenceforward shall be limited to the actual maximum fiduciary circulation of the preceding twelve months. Hitherto this regulation has not caused any serious inconvenience. But the arrangement is far too rigid and inelastic to be permanent. The maximum has been reached on more than one occasion, as, for instance, at the end of 1924. At that time the banks, requiring for Christmas trade more currency, applied for Treasury notes. But, the maximum having been reached, the currency note authorities were under the necessity of buying from the Bank of England an equivalent number of bank notes to act as a reserve for the issue of more currency notes. Had the banks asked the Bank of England direct for its notes instead, these complicated arrangements would not have been necessary. But since, as it appears, even when the currency notes flow back after Christmas, the Bank of England notes are not returned to the Bank but remain as part of the currency note reserve, the upshot of the whole matter is merely that the amount of currency notes which may be legally issued is increased by exactly the same amount as the Bank of England notes available for issue are reduced. The currency note reserve, which nobody looks at, is increased, and the Bank of England reserve, which everyone is accustomed to regard as the barometer of the money market, is reduced. It is clear that ultimately these unnecessary and injurious complications should be swept away by an amalgamation of the two issues under the control of the Bank of England.

When this moment arrives, however, we shall have a difficult question to settle—namely, what backing of gold we require in future for our amalgamated note issue. Up

The Gold Standard

to 1914 the Bank of England note issue had been regulated by the Bank Act of 1844, all notes being covered by gold except the small fiduciary issue of about £19,000,000. But we shall certainly not attempt to cover by gold all but that amount of Bank of England and Treasury notes together, which now amount to £400,000,000. It will be necessary therefore to determine what proportion of gold reserve we require henceforth.

It is probable, however, that it is the limitation of credit by means of the Bank Rate or by other more technical means of influencing the money market that our authorities regard as more important under existing circumstances than the limitation of currency. Any substantial improvement in industry and trade would undoubtedly require and justify an increase of currency. It is hardly likely that the Government would insist on the rigid enforcement of the present inelastic regulation at a time when the normal means of broadening the basis of credit by the importation of gold is not open to us. While prices have been kept remarkably steady for the last two or three years, it must be remembered that these years have covered a continuous period of depression. It is when credit is expanding, prices rising, and prosperity growing that the task of credit and currency control under an inconvertible note issue becomes serious and difficult. While we have been fortunate to have had sound financial guidance during the last few years, we do not regard that experience as an adequate test of a "managed" currency.

III. WHAT WILL BE THE RESULTS OF RETURNING TO THE GOLD STANDARD? IS THERE AN ALTERNATIVE?

WHAT, then, are the comparative advantages and disadvantages of returning to the gold standard? It is easy to prove that nothing could in theory be more crude than to choose one commodity, even a scarce and

Is there an Alternative?

durable metal like gold, as a standard and to expect that it will maintain anything like a constant value. It is true that for a good many years before the war the gold standard worked in practice wonderfully well. But may not this have been fortuitous? As Mr. Keynes points out, "After the discoveries of Australia and California, it (gold) began to depreciate dangerously and before the exploitation of South Africa it began to appreciate dangerously. Yet in each case it righted itself and retained its reputation." It would be strange, in fact, if gold remained completely stable in value. Other things being equal, it requires to increase definitely every year to keep pace with the growth of wealth, by an amount which Professor Cassel has estimated to be about 3 per cent. of the existing stock. It may be remarked that in 1923 the total monetary stock of gold* in the world was estimated at about £1,962,000,000, the production that year at £76,000,000, of which £31,000,000 was used in industry, £14,000,000 of this latter amount being used in the United States. But even suppose the increased production were to run concurrently with the increased wealth of the world this harmony might be upset at any time by other changes, such as increased economies in its use, or more employment of it in industry, or by one or more nations requiring more of it than before. Lastly, it may be upset, and upset totally and finally, by chemical discoveries. The means may be found of transmuting mercury or other metals into gold. This is indeed possible, but it is likely that the cost of transmuting any quantity worth while would make the game not worth the candle, and we need not yet be terrified by the prospect of unmeasured worldwide inflation from this cause.

Apart, however, from such disturbing visions, there are enough uncertainties in the world as it is to make any prophecy as to the future value of gold in the next few

* Report of the United States Mint for 1923.

The Gold Standard

years dangerous. The situation is more unstable than in 1914. Then the gold standard reigned over most of the civilised world ; each country, if we except India with its strange absorbing power, had more or less the gold it required for reserves and currency, and stability was maintained by comparatively small shipments from one country to another. But what is the position to-day ? Half the total monetary stock of gold in the world is in the United States—*i.e.*, about £885,000,000, and the gold in that country per head of the population has doubled since 1914—*i.e.*, from \$18.90 to \$39.85 in 1924. Clearly there is too much of it there. On the other hand, no one can foresee the future needs of such countries as Germany or Russia ; no one can measure the capacity of India to go on absorbing gold. All these uncertainties, permanent and temporary, have led certain authorities, notably Mr. Keynes, to the view that we should not only make no effort, but that we should deliberately decline, to restore the gold standard. Mr. Keynes' argument is brilliantly set forth in his book on *Monetary Reform*. He holds the view that the gold standard, while it will undoubtedly maintain our exchanges and price level in conformity with other gold standard countries, in particular the United States, may involve far greater fluctuations in internal prices than we have suffered from recently. The ideal is no doubt to secure stable exchanges and stable internal prices. If we cannot do both, Mr. Keynes would much prefer stability of prices. He regards the latter as of vital importance to the economic and social well-being of a country, while stability of exchanges he thinks more or less of a convenience, though a very desirable one. Mr. Keynes proposes, therefore, that we should divorce our currency entirely from gold ; that the Bank of England and the Treasury should "manage" our currency and credit, in the light of index numbers, figures for unemployment and production, and so forth, by means of the Bank Rate and other devices, so as to maintain the utmost

Is there an Alternative ?

stability of prices, without regard to the effect on our exchanges or whether we are moving in the same direction as, or away from other countries. He couples, however, to his plan a proposal that the Bank of England should maintain a reserve of gold and be ready to buy and sell gold at certain published prices "in order to keep the dollar-sterling exchange steady within corresponding limits." If, however, the stability of sterling prices required a change, the Bank would alter its gold prices. Thereupon the dollar-sterling exchange would alter in sympathy, internal sterling prices remaining unaltered. Without being tied to gold, we should by this means maintain comparative stability in our exchanges with gold standard countries.

While we are impressed by the cogency and ingenuity with which Mr. Keynes argues his case, we are not convinced that he has proved it. Casting their eyes forward over a long series of years, many economists fear a growing scarcity of gold, compared to the world's growing demand, leading to an appreciation in its value, and therefore to a gradual and prolonged world deflation. This is possible, but it is hardly worth while making any forecast over a long period. There may be further discoveries of gold ; there may be still further economies in its use for monetary purposes. What concerns us and, we think, concerns Mr. Keynes too, is the behaviour of gold in the next decade and particularly, indeed, in the immediate future, though in passing one may remark that it is greatly in the interests of this country that gold should not appreciate in value, if only because our debt to the United States Government is payable in gold. As regards its present value, one cannot shut one's eyes to the fact that the all-important factor is the monetary and credit policy of the United States. It need not be doubted that the Federal Reserve authorities will wish to maintain stability in the value of gold and in prices. They cannot but fear, just as much as we do, violent fluctuations. But what has not yet been proved is their power to prevent the huge

The Gold Standard

stocks of gold now in America from having an inflationary effect. Hitherto, to the surprise of most observers in this country, this superabundance of gold, coupled with exceptionally low money rates, has not had any serious effect on prices. In fact, since June 1924, wholesale prices in this country have risen more than they have in the United States. If, however, we look at banking statistics, an entirely different picture is presented. The member banks of the Federal Reserve system, which do about 53 per cent. of the banking business of the whole country, have increased their deposits in 1924 by \$2,780,000,000, or well over £500,000,000. Yet, this has not been due to their making much greater loans to industry. Commercial loans, indeed, have only increased by the very moderate figure of \$219,000,000. Trade, in fact, has been slackening. The huge increase in deposits has been due largely to increased loans on stocks and bonds. While their commercial loans have increased very little, their total loans and investments have increased in six months since June by \$1,900,000,000. There has, therefore, been a very large creation of bank credit, which, while it has had a great effect on Stock Exchange prices, has not yet affected prices. It appears that industry is now going ahead fast and therefore will make further demands on the banks. The banks will then either have to call in their loans against securities, sell their investments or go to the Federal Reserve banks for facilities. Owing to the great supplies of gold, the member banks have been able to add very largely to the supply of banking credit without calling on the Federal Reserve banks. They are, therefore, in a position to obtain very large facilities from the latter. But it is to be presumed that in that event the discount rate of the Federal Reserve will be raised, and a check placed on further inflation. The situation is an extremely interesting one. It is a question whether the existing supply of credit will not without any further addition to it necessitate an increase in prices. It would

Is there an Alternative ?

certainly seem that the Federal Reserve authorities will have to face raising their rates, as soon as any appreciable demand for accommodation is made on them by the member banks, and this, of course, would react on our rates here. The over-supply of gold in the United States is, as the above figures show, having its effect. Like every commodity, it falls in value in such circumstances. But the depreciation in the case of gold is indirect and works through its influence on the supply of credit.

There are several powerful influences, however, which will help to damp down a "boom" in the United States. There is the fear inspired by the great collapse of 1919-20 which is still vivid in the minds of American business men ; any great advance in prices will re-inspire it. Moreover, America is at present losing gold rapidly, though some of the movements of gold, like those to Germany, are more or less artificial. In December, 1924, over \$40,000,000 were exported ; in January, 1925, about \$90,000,000. Finally, there is, as we have said, the powerful influence of the Federal Reserve banks which will be used to check a "boom."

Nevertheless, the situation is not a very secure one, and we seem to run the risk either of a considerable rise in prices in the United States, which may go further than we want, and force on us an unwelcome rise here, or a rise in interest rates, which may be also unwelcome. Mr. Keynes is right, therefore, in his statement that in present circumstances we shall, even if we return to gold, have to rely a great deal on the "management" of the credit machinery by the Central Banks—particularly the Federal Reserve Board. Until the gold supply is more evenly distributed, that is inevitable. But, while it is possible to argue that present conditions in the United States are not without risks for us, that is not a justification for condemning the gold standard itself. The self-interest of the great Central Banks is powerfully engaged on the side of caution. Moreover, the licence

The Gold Standard

left to central banking authorities and politicians, to manage their gold reserves under a gold standard and to manage their paper currency under an inconvertible system, is very different. A return to the gold standard cannot, in our view, be ruled out on the assumption that the Central Banks of the world, while wise enough to manage an inconvertible currency, are not wise enough to prevent wild fluctuations in the value of gold.

In the second place, Mr. Keynes, while rightly laying stress on the immense importance of the stability of internal prices, minimises, we think, the importance of stability in the foreign exchanges. It is true that in the biggest and freest exchange markets there are facilities for dealing in "forward exchange," *i.e.*, for buying or selling currencies for some date ahead ; by which, generally at a certain cost, the importer or exporter can cover his exchange risks for a certain period in advance. But these facilities do not apply to anything like all markets. And in any case they do not wholly meet the difficulty. Even if an importer, say from France, who has bought his goods ahead, has covered his exchange risk, a fall in the value of the franc may enable a competitor to import more cheaply and upset his market. These uncertainties cannot be entirely overcome and are bad for trade.

Moreover, apart from normal trade, fluctuating exchanges impede or even prevent the free flow of capital throughout the world. Nothing is more important at the moment for the general prosperity of all nations than that capital should flow freely where it is required. But, so long as he may risk the loss of some, indeed of a great part of his capital, through exchange risks, the capitalist will keep his money at home. The American investor will, it is true, at this moment lend his money to the French Government, provided the latter undertakes to pay back in dollars. But he will not himself risk his money in France itself or in any country where he may find, when he wishes to get his money out, that the exchange has depreciated and that

Is there an Alternative?

he is faced with a heavy loss of capital. If, on the other hand, the sterling exchange goes to par, and if this, as is likely, should be accompanied by the return to stable exchange conditions of a good many other countries, there will be a good basis for Anglo-American co-operation in the placing of capital abroad, which may be profitable to them, and useful to the rest of the world.

Lastly, a stable sterling exchange is of first-rate importance for the maintenance of London's pre-eminent position as the financial centre of the world. That she could permanently maintain her supremacy with a fluctuating exchange, when there were other centres such as New York with a stable exchange, is more than doubtful. It is true Mr. Keynes proposes to meet this difficulty, so far as is possible, by his device of the Bank of England being always open to buy and sell gold at certain fixed prices. This plan might avoid minor fluctuations in the exchange. But if the maintenance of a certain price for gold were to mean, owing to changing prices in America, an undue outflow or inflow of gold, Mr. Keynes would have the Bank sacrifice exchange stability and alter the price of gold, rather than change the level of commodity prices in general internally.

If, therefore, we compare Mr. Keynes' plan with a return to the gold standard, we may perhaps summarise their respective merits as follows :

Mr. Keynes, being nothing if not thorough, would have both England and the United States definitely and openly abandon the gold standard, remove any connection between the gold reserves held in either country and their respective note issues, use the gold reserves purely as a means of settling, in case of need—*e.g.*, seasonal movements—international balances, and place upon the central banking authorities of each country the duty of maintaining stability of internal prices by regulating the supply of currency and credit, and in particular the supply of credit. For in these days of highly developed banking systems it is

The Gold Standard

the supply of credit which determines that of currency, rather than the opposite. If the authorities of both countries were successful in achieving the stability of internal prices, then, once the system had started, and the exchange between the two countries had adjusted itself to the existing price levels, it also should remain stable. If, however, prices in either country were not successfully controlled, an adjustment would be made by an alteration in the exchange rather than by a corresponding movement in the other country's price level. We should, in fact, continue the policy which by force of circumstances our authorities have with more or less success been impelled to adopt since the war. Apart from England and the United States, Mr. Keynes suggests that other countries should hitch themselves either to the dollar or the sterling standard and maintain parity with whichever might be chosen by methods similar to those adopted in countries using the "gold exchange standard."

Stability of monetary conditions would thus depend entirely on the skill and ability of the central financial authorities in London and New York and on their power to adopt and maintain, unmoved by political influences, a steady and permanent monetary policy. If, on the other hand, this country were to return to the gold standard, it is certain that other countries would follow suit or, better still, accompany it simultaneously. Sweden has already adopted it. Holland and Switzerland are in a position to do so. German currency is based upon it. South Africa will almost certainly revert to it in a few months, advised thereto by the experts the South African Government recently consulted; Australia will very likely follow suit. Other countries would shortly fall into line also, and the argument for such countries as France and Italy recognising facts and altering the amount of gold in their currencies to correspond with existing conditions—*i.e.*, devaluing their currencies—would be immensely strengthened. In a few years,

Is there an Alternative ?

therefore, the world might present a picture not very unlike that of 1914. There might, it is true, be an awkward intervening period, before the value of gold settled down under the new conditions. But it is not too much to hope for a steady trend towards stability. For the present we cannot escape altogether from a "managed" currency even on a gold basis. As Mr. Keynes says, "the value of gold will depend on the policy of three or four of the most powerful central banks, whether they act in unison or separately." Nevertheless, though much will depend on their policy, they and their Governments will always act within strict limits and under the necessity of maintaining the gold parity. It is a very different thing whether a Socialist Finance Minister, with extravagant ideas as to the merits of Government expenditure or the blessings of increased purchasing power, is free to "inflate" under an inconvertible system or whether he has to act within the limits of the gold standard. In the latter case, he could not disguise from the public the effects of his policy on the monetary standard, whereas he might do much harm under existing conditions before his sins were discovered. And that all history is against Governments maintaining monetary stability Mr. Keynes himself asserts. "There is," he says, "an almost unbroken chronicle in every country, which has a history back to the earliest record, of a progressive deterioration in the real value of the successive legal tenders which have represented money." The two driving forces in favour of depreciation have been the "impecuniosity of Governments and the superior political influence of the debtor class." Under the influence of these two forces "the progress of inflation has been *continuous*, if we consider long periods ever since money was first devised in the sixth century B.C."

If Mr. Wheatley were ever to become Governor of a nationalised Bank of England, we might gain further light and guidance as to the power in modern times of the most powerful of these two driving forces. An eternally stable

The Gold Standard

standard, even if it were desirable, remains indeed to be discovered. Meanwhile one's conclusions, as to the respective merits of a "managed" currency and the gold standard, will be determined by the view one takes as to the stability over a long period of time of politicians under a full-fledged democracy as compared with the stability of gold. So long as the chemists have not discovered how to make gold synthetically, we prefer gold.

Finally, apart from the relative merits of the two systems, and while in accordance as we progress in knowledge and international co-operation, gold may become, what Mr. Keynes already defines it, namely, a barbarous relic, it is quite impracticable at present to propose its abandonment either here or in the United States. It is fascinating to examine into future currency reforms, but it is not practical politics to propose seriously to abandon gold. The gold standard, it may be owing to lucky circumstances, worked well before the war. It will have to show itself far less beneficial as a means of uniting the world in the bonds of one uniform standard of value than it has hitherto, before its abandonment will be seriously contemplated. No doubt from this point of view Mr. Keynes himself, as Mr. McKenna does, would favour the adoption of the gold standard by this country, as soon as conditions seem favourable. The wisest policy for all nations concerned is to adopt the programme set forth in the Currency Resolutions of the Genoa Conference, which are reprinted for reference at the end of this article, to return to the gold standard as soon as circumstances permit, and to set themselves by the close co-operation of the Central Banks to minimise the fluctuations in the value of gold itself.

Is this the Moment to Return ?

IV. IS THIS THE MOMENT TO RETURN TO THE GOLD STANDARD ?

IT is all-important that, when once we have declared London a free gold market, we should be able to maintain it. If we were to make such a declaration in the next few months, should we be able to do so ? Are the conditions favourable to such action at this moment ? There is, in our opinion, no fundamental condition which makes it impossible for this country to maintain a free market in gold, provided the appropriate control over the money and credit market is exercised. The circumstances, which make it impossible for a country which is off the gold standard, to return to it, may be broadly defined as follows :—

(1) That its government finances are in such disorder that it must rely on inflationary measures to make both ends meet, thus leading to a depreciation of its paper currency.

(2) That it is in such a state of economic poverty or disturbance that it cannot without temporary assistance or borrowing from abroad secure an equilibrium in its international balance of payments. Various countries in central Europe have during the last few years provided examples of this nature. The great Japanese earthquake seems to have placed Japan temporarily in the position of having to secure foreign loans in order to balance its exports and imports.

(3) That its level of prices, and its interest rates are so out of line with those in the country or countries on a gold basis that to attempt to return to a free gold market would lead to an undue export of gold.

Let us examine briefly these three points, as they relate to this country.

No difficulty arises in respect to the first. Our Government's finances are in order. Our budgets balance. We

The Gold Standard

need fear no depreciation of our currency from this quarter.

Is there any reason to fear that we cannot maintain an equilibrium in our international balance of payments? Let us first of all remark that, as compared with other countries, we have this advantage, that we receive on our investments of capital abroad, which are the result not so much of our own efforts and savings as of our fathers' and grandfathers', a net annual income estimated by the Board of Trade at £184,000,000, after deducting our annual payment of £35,000,000 due to the United States Government in respect of war debts. We start with this advantage over most other countries which have comparatively few foreign investments. If other countries can balance their international payments and receipts, surely we should be able to do so. Nevertheless, the figures show that we require now almost the whole of this sum to make both ends meet. We show in 1924 an excess of £341,000,000 of imports over exports, as against £202,000,000 in 1923 and £171,000,000 in 1922. As against this excess the Board of Trade calculate that our "invisible exports" during 1924—*i.e.*, income from shipping, investment abroad, commission and so forth—may have been £370,000,000. Thus we are left with a surplus available to lend abroad of £29,000,000. Yet issues of loans to foreign countries in the London market amount in 1924 to £134,000,000. The difference of over £100,000,000 may be partly accounted for by foreigners taking up part of the issues made in London, partly by the proceeds of such issues being left in London, but in the main it is, in our view, to be accounted for by three other influences—first, that in view of our money rates being higher than the American and the probable profit due to the expected rise in sterling, larger sums than usual have probably been transferred to London from the United States and elsewhere; and secondly, that the very large loans made by the United States to foreign countries (amounting in 1924 to nearly £200,000,000 in all, of which

Is this the Moment to Return?

over £100,000,000 were lent to Europe) have been for similar reasons to some extent changed into sterling and left here temporarily before being again withdrawn ; and thirdly, that a portion of the money lent abroad by us has been actually spent here. The continuous and large rise in the value of sterling in the last six months has been due in the main, we think, to the combination of these influences. Low money rates in New York, coupled with America's large lendings to the world, have been circumstances exceedingly favourable to sterling. The rise in its value has encouraged imports into this country and these imports have been paid for without affecting the exchange owing to the large sums left by the world on deposit in London. A further circumstance very advantageous to us has been the fact that since the war we have sold our exports at a figure much higher relatively to pre-war prices than that at which we have bought our imports. In other words, the value of manufactured articles has increased much more than that of food and raw materials. This maladjustment is now being corrected. Our imports are fast rising in price, and in future we shall have to export more to buy the same amount of imports. The serious matter for this country is not so much the size of our imports, which in 1924 are calculated by the Board of Trade to be only about 4 per cent. *in volume* above those of 1913, as the deficiency in our exports. The same authority calculates our exports to be in volume only 75 per cent. of the exports of 1913. Calculated at 1913 prices our exports are over £100,000,000 less than in that year, or at 1924 prices nearer £200,000,000. There is still an enormous leeway to make up, and it is an urgent question what are the influences which are preventing the recovery of our export trade, whether it is the failure of world trade itself to recover, or our own excessive costs of production. It is in this connection that the demands of Labour for constantly higher wages are so serious. The high level of our costs is already hampering our exports greatly. If our

The Gold Standard

exports are still further to diminish at a time when we must pay more for our imports, and if at the same time for any reason America were to stop lending to the world the drain on our exchange might, until we had adjusted ourselves to the new position, be serious and might even endanger our power to maintain a free gold market, at any rate without so high a Bank rate as to be a heavy burden on industry and trade.

Nevertheless, while we may be subjected to severe temporary strains, there should be no question but that this country can make both ends meet. Every nation in the world in fact has, and always has had to pay its way, sometimes, it is true, by very severe sacrifices. Our large investments of capital abroad should make what is necessary for all comparatively easy for us. It is, however, important to note that we are living as comfortably as we do and importing as much as we do, because of the surplus savings of past generations invested abroad, the income from which we now enjoy.

If we take a long view, these are the fundamental considerations of most importance. But the third question still remains. Are the conditions of the moment satisfactory? Are the levels of our prices and interest rates such that we can return to par and stay there without the danger of too much gold being exported, or in the alternative the danger of being faced with a severe deflationary policy, high rates of interest, and a fall in prices? Perhaps it is as well to put in as simple a manner as possible the effect of our prices and interest rates not being properly adjusted to American prices and rates. Every merchant and manufacturer looks for the country where he can sell his goods with the greatest return to himself, or in other words get the highest price. Suppose an American exporter were able to make a certain article for \$400, and sell it in England for £100, when the exchange stood at \$4.60. Clearly he can dispose on the exchange market of his £100 for \$460 and make \$60 profit. Suppose then the exchange

Is this the Moment to Return?

goes to par, or \$4.87. Then, if American and English prices remain the same, he can exchange his £100 for \$487 and make \$87 profit. Clearly England has become a better country to import to, and imports here will increase. So long as we remain a free gold market, the importer is certain of being able to exchange all the sterling he receives for his goods at \$4.87 to the pound. If he cannot buy his dollars in the market, he can buy and export gold. It is obvious, therefore, that our gold exports will tend to grow, so long as it is unduly profitable to import here, so long, in fact, as our prices, relatively to the American, are unduly high. The disequilibrium can be adjusted either by American prices going up, or English prices going down. Suppose both happened and the American exporter found it cost him, say, \$440 instead of \$400 to make the article in question and the price in England had fallen to £90, then by selling his £90 at \$4.87 to the pound he would net only \$438. In other words, he would hardly come out square.

It is essential, therefore, that English and American price levels should be so adjusted that when we return to a free gold market there should be no excessive premium on importing to this country. Recently American prices have been going up, and there is every indication they will go higher. Ours, however, have been rising just as fast. It is extremely difficult even for the most expert statisticians to feel certain whether the price levels are on an equilibrium. The best judges incline to the view that they are not far from that point. Possibly there may be a gap of 5 per cent. requiring to be bridged. While the relative price levels may not be the influence of most immediate importance, they must in the long run be adjusted to the gold exchange.

But prices are not the only things which matter. It is necessary that interest rates here, both for short money and investment, should be on such a level as not to make it more profitable for money, both banking and investment

The Gold Standard

money, to move to America. For this again would set up an undue drain of gold from this country. This condition is fulfilled at present as regards money lent for a short period, since money rates here are somewhat higher than in New York. On the other hand, investment rates, certainly for some investments such as foreign loans, are higher in New York, and it must be expected that money will flow from here until such loans as the German and other foreign loans quoted on both markets stand at the same level in both places. It is to be expected, we think, that a considerable investment in American securities will take place from here. But there is one great obstacle to it, which did not exist before the war, in the shape of American income tax, which is not, however, levied on foreign investments issued in America.

We shall, therefore, certainly have to see that interest rates in the New York money market do not go higher than those in London. We have indeed to recognise that a consequence of a return to the gold standard is the definite and permanent linking-up of American and English price and interest levels. The rates for short money will necessarily be about the same. Moreover, if American prices advance, ours must advance too. We shall both suffer from ease and stringency together.

In addition to prices and interest rates there are certain other less fundamental influences which might lead to a temporary drain on the exchange market. It is probable that the likelihood of our returning to par has brought into being a certain "bull" account in sterling, speculators seeing a profit to be made out of its appreciation. Such a "bull" position is always a weakness, since, as soon as no further profit is to be made, the speculators will sell their sterling again. It may well be, however, that this "bull" position has been considerably reduced in the last month or two. It is generally supposed too that there is a large amount of money here, particularly American money. Whether it is much larger than usual is uncertain.

Is this the Moment to Return ?

The bulk of it, in any case, has probably been placed here in order to gain advantage of the more favourable money rates, rather than for speculative purposes. There may, it is true, be considerable movements of funds at the moment of our return to par, and the speculative money may be withdrawn. But it is hardly to be supposed that with a free gold market London will become a less rather than a more desirable centre in which to invest funds than she was under a fluctuating exchange. Foreign nations will recognise that this country, having returned to par, will exert her whole strength to stay there, and they will have confidence in her power to do so. London has always worked on foreign balances being left here and there is no reason to suppose they will not be left here in future. Then again seasonal fluctuations due to the shipment in the autumn of cotton, grain, etc., which cannot be avoided, may cause at times a severe strain on the exchange. Before the war they were met by the movement of funds from one centre to another undertaken in advance by banks, which saw a small profit in such transactions. These transactions could hardly be called speculative ; they were indeed legitimate and necessary. These methods will be renewed in time. In the interval the Bank of England will no doubt be able to make such arrangements with the Federal Reserve Board as will prevent any ill consequences either from seasonal demands or from the speculative movements of funds referred to above. On the other hand, we should not be misled by the common belief that our capacity to return to par depends on our obtaining a huge loan in America. To have the means of meeting certain temporary demands may be valuable. But it would be dangerous to be tempted by borrowing in the United States to avoid taking here the restrictive measures necessary to make the required adjustments of our prices and interest rates. There can be no question but that the Federal Reserve Board would be ready to extend all the credit we need. The important point is that we should exercise the utmost caution in using such facilities.

The Gold Standard

We are now in a position to summarise the problem. There are no permanent causes to prevent us from maintaining the gold standard. Our Government finances are in order ; we should have no permanent difficulty in maintaining a balance of international payments. But it is necessary also to consider very carefully whether the immediate situation is favourable. There are undoubtedly a good many uncertainties. There are considerable balances of foreign money here, some of which may be withdrawn ; there is a certain speculative "bull" position in sterling ; our labour conditions look unsatisfactory and may work still further damage to our exports ; again, if the large American investments abroad were to dry up it would be more difficult to pay for our imports on their present scale, though perhaps in view of the very large merchandise trade balance in favour of the United States it is likely that large foreign investments will continue to be made there ; lastly, and most important, is the United States working up for a "boom" ? All these uncertainties make for caution. On the other hand, a fair wind has brought sterling very near to par ; psychological conditions are all in its favour, and they are important. We have stable Governments both here and in the United States. If we really believe that the gold standard is worth some sacrifices, we should not hesitate too long. The whole world believes we intend to return to par. If we wait too long, pyschological influences will turn against us ; we may miss the moment and it may be many months before it returns.

The ideal state of affairs would be that by a moderate expansion of credit in the United States, coupled with moderate restriction here, prices in America should advance sufficiently to carry the sterling-dollar exchange back to par automatically and that thereafter, by co-operation between the central banking authorities of the two countries, stability of prices and proper relative level of interest rates should be maintained. If we could be reasonably sure of such a consummation, we doubt if there is anyone

Is this the Moment to Return?

who would oppose the removal of the embargo on free export as soon as the exchange had remained around par for a short time.

There is no necessity for the Government and the Bank of England to announce their policy to-day or to-morrow. But there is a necessity that they should do so a good many months in advance of December 31, 1925, when the present Act regulating the export of gold expires. And it would seem advisable that, when they make such an announcement, it should be of a quite definite character. If affairs in the United States do not develop very unfavourably, it is to be presumed that the plunge will be taken and the policy of a free gold market adopted. If so, our authorities must naturally be prepared to take all the necessary measures here and by a firm monetary policy to keep fundamental conditions in respect to prices and interest rates here favourable for the last step.

The ordinary citizen will not be likely to notice much difference after the return to a free gold market. He will not see gold in circulation, and measures will probably be taken limiting the power to mint gold into sovereigns to the Bank of England. But it is no good shutting our eyes to the fact that a higher Bank rate than we have at present may be required and that we may not escape temporarily greater fluctuations in prices than we have suffered recently. Nevertheless, even if we have a *mauvais quart d'heure* to go through, we regard the advantages of the gold standard for our industry and trade as far outweighing a temporary disturbance of interest rates. We depend on the prosperity of world trade, and world trade would be immensely benefited if we could return to something like the monetary conditions of 1914. Some bankers hesitate, now that they face the moment of decision, and draw back from linking our fortunes with other gold standard countries, particularly the United States, as, indeed, they link their fortunes with ours. But that is inherent in any return by us to gold, whether we do it now or at any

The Gold Standard

other time. If we will not run that risk, we may as well at once abandon gold and adopt Mr. Keynes' project. But the American authorities are as alive as ours to the damage done to their own country by serious fluctuations in prices, and, while they may not be able to control alternating periods of prosperity and depression, known as the trade-cycle, we are entitled to assume that they will be able to prevent those recurring crises and panics which were almost inevitable in the days before the creation of the Federal Reserve system.

Appendix

APPENDIX

INTERNATIONAL ECONOMIC CONFERENCE OF GENOA

(APRIL, 1922)

CURRENCY RESOLUTIONS OF THE FINANCIAL COMMISSION

1. The essential requisite for the economic reconstruction of Europe is the achievement by each country of stability in the value of its currency.
2. Banks, and especially banks of issue, should be free from political pressure, and should be conducted solely on lines of prudent finance. In countries where there is no central bank of issue, one should be established.
3. Measures of currency reform will be facilitated if the practice of continuous co-operation among central banks of issue, or banks regulating credit policy in the several countries can be developed. Such co-operation of central banks, not necessarily confined to Europe, would provide opportunities of co-ordinating their policy, without hampering the freedom of the several banks. It is suggested that an early meeting of representatives of central banks should be held with a view to considering how best to give effect to this recommendation.
4. It is desirable that all European currencies should be based upon a common standard.
5. Gold is the only common standard which all European countries could at present agree to adopt.
6. It is in the general interest that European Governments should declare now that the establishment of a gold standard is their ultimate object, and should agree on the programme by way of which they intend to achieve it.
7. So long as there is a deficiency in the annual budget of the State which is met by the creation of fiduciary money or bank credits, no currency reform is possible, and no approach to the establishment of the gold standard can be made. The most important reform of all must therefore be the balancing of the annual expenditure of the State without the creation of fresh credits unrepresented by new assets. The balancing of the budget requires adequate taxation, but if Government expenditure is so high as to drive taxation to a point beyond what can be paid out of the income of the country, the taxation itself may still lead to inflation. Reduction of Government expenditure is the true remedy. The balancing of the budget will go far to remedy an adverse balance of external payment, by reducing internal consumption. But it

The Gold Standard

is recognised that in the case of some countries the adverse balance is such as to render the attainment of equilibrium in the budget difficult without the assistance in addition of an external loan. Without such a loan, that comparative stability in the currency upon which balancing of the budget by the means indicated above largely depends may be unattainable.

8. The next step will be to determine and fix the gold value of the monetary unit. This step can only be taken in each country when the economic circumstances permit; for the country will then have to decide the question, whether to adopt the old gold parity or a new parity approximating to the exchange value of the monetary unit at the time.

9. These steps might by themselves suffice to establish a gold standard, but its successful maintenance would be materially promoted, not only by the proposed collaboration of central banks, but by an international Convention to be adopted at a suitable time. The purpose of the Convention would be to centralise and co-ordinate the demand for gold, and so to avoid those wide fluctuations in the purchasing power of gold, which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves. The Convention should embody some means of economising the use of gold by maintaining reserves in the form of foreign balances, such, for example, as the gold exchange standard, or an international clearing system.

10. It is not essential that the membership of the international Convention contemplated in the preceding resolution should be universal, even in Europe, but the wider it is, the greater will be the prospect of success.

Nevertheless, if the participating countries and the United States are to use the same monetary standard, no scheme for stabilising the purchasing power of the monetary unit can be fully effective without co-ordination of policy between Europe and the United States, whose co-operation therefore should be invited.

11. It is desirable that the following proposals to form the basis of the international Convention contemplated in Resolution 9 be submitted for the consideration of the meeting of central banks suggested in Resolution 3:—

(1.) The Governments of the participating countries declare that the restoration of a gold standard is their ultimate object, and they agree to carry out, as rapidly as may be in their power, the following programme:

(a) In order to gain effective control of its own currency, each Government must meet its annual expenditure without resorting to the creation of fiduciary money or credits for the purpose.

(b) The next step will be, as soon as the economic circumstances

Appendix

permit, to determine and fix the gold value of the monetary unit. This will not necessarily be at the former gold par.

(c) The gold value so fixed must then be made effective in a free exchange market.

(d) The maintenance of the currency at its gold value must be assured by the provision of an adequate reserve of approved assets, not necessarily gold.

(2.) When progress permits, certain of the participating countries will establish a free market in gold and thus become gold centres.

(3.) A participating country, in addition to any gold reserves held at home, may maintain in any other participating country reserves of approved assets in the form of bank balances, bills, short term securities or other suitable liquid resources.

(4.) The ordinary practice of a participating country will be to buy and sell exchange on other participating countries within a prescribed fraction of parity, in exchange for its own currency on demand.

(5.) The Convention will thus be based on a gold exchange standard. The condition of continuing membership will be the maintenance of the national currency unit at the prescribed value. Failure in this respect will entail suspension of the right to hold the reserve balances of other participating countries.

(6.) Each country will be responsible for the necessary legislative and other measures required to maintain the international value of its currency at par, and will be left entirely free to devise and apply the means, whether through regulation of credit by central banks or otherwise.

(7.) Credit will be regulated, not only with a view to maintaining the currencies at par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold. It is not contemplated, however, that the discretion of the central banks should be fettered by any definite rules framed for this purpose, but that their collaboration will have been assured in matters outside the province of the participating countries.

12. With a view to the development of the practice of continuous co-operation among central banks and banks regulating credit policy in the several countries, as recommended in Resolution 3, this Conference recommends that the Bank of England be requested to call a meeting of such banks as soon as possible to consider the proposals adopted by the Conference, and to make recommendations to their respective Governments for the adoption of an International Monetary Convention.

CHINA IN EVOLUTION

I. CAUSES OF UNREST

CHINA is passing through one of those phases of political unrest which again and again in the course of the last few years have disturbed the surface of her national life. The reports which reach us by telegraph and mail, couched as they are in terms familiar to Western readers, though with a somewhat different significance in China—the fall of cabinets, the impeachment of a President, the Manchu Emperor seeking sanctuary in a foreign legation, the paralysis of railway communications, the slaughter accomplished by aeroplanes and modern artillery, and the rise of an active Bolshevik party—convey an exaggerated idea of the disorder as it affects the life of the Chinese people, though they convey a perfectly true impression of a real and growing menace to all foreign interests in China, to the interests of the trader, the industrialist and the investor. The vested interests of the British Empire in China now represent a very considerable stake.

But there is an even greater issue at stake—the friendship of the Chinese people. If that friendship were assessed even on the lowest and most selfish basis it would demand careful consideration in the policy of an empire such as ours—with its geographical, political and racial problems in Asia and the Pacific. If it is recognised in its full significance it becomes for us an essential part of a great world policy, a link with the one people, the one civilisation, whose history has stood the test of time and weathered the

Causes of Unrest

experience of every social and political problem known to human communities. In the thousands of years of her unbroken experience China has tried most of the experiments, and bought most of the experience, involved in the art of living. The West expends a great deal of energy nowadays in advising her how to get into the stride of modern progress. We may be glad to turn to her before long for advice on some of the more permanent problems of life.

It is scarcely possible in England to follow the details of the recent disturbances in China, to keep track of the medley of strange names of men and places, and the local struggles without apparent aim or policy. But it may be possible, and it is important, to understand something of the reason for these recurring troubles, and to inquire whether any action on our part could not only safeguard our own interests, but also help a great and friendly neighbour, whose problems seem for the moment to have slipped beyond her own control.

The struggle now in progress is of importance mainly because it is a symptom of the malady of China. There is no real civil war there, no revolution, no great strike, nothing in which the hearts and hands of the masses are consciously involved. The people of China are probably more united in sentiment, more sympathetic to one another than ever before in their long history. And yet it is impossible to believe that these incessant struggles are merely the efforts of individuals, ambitious for personal profit and power. The whole history and temperament of the leading figures denies such an assumption. They are not self-seeking men. They represent something in the country, some intangible restless force which is stronger than they are. It is true that the active symptoms of unrest are chiefly apparent in a restricted circle, among the younger men, the students, the young officers, the younger members of the gentry. But that is surely the case in all countries. There is increasing evidence that a sense of

China in Evolution

restlessness is now widespread and general, confined to no locality and to no class. It probably reflects the growing-pains of a static and isolated civilisation which has developed along its own lines and been guided for thousands of years by its own genius, but which has suddenly been faced with the necessity of living in close contact with a new world of material progress, scientific thought, political experiment and social emancipation.

The charge is laid at the doors of the West of having created, or at least contributed to, this period of confusion in China. And the charge is, of course, as well-founded as the event was inevitable. Improved communications have broken down the barriers of Chinese life and thought. No people, however numerous or isolated by physical conditions, can resist the impact of the modern world of steamships and railways, newspapers and popular education, commerce and industry, and creeds which promise a new and happier world. Rightly or wrongly, the men of the West forced themselves into the country in the middle of the last century, when their modern armaments presented to the Chinese a new and unanswerable argument in favour of closer relations and unrestricted trade. Rights of residence and trade, together with various social, commercial and juridical privileges were accorded to the foreigner under a series of treaties, providing among other things for complete extraterritorial jurisdiction and an imposed tariff. These privileges attracted little attention so long as the foreign communities were small, and were recruited from a selected class. The old merchant prince tradition of the treaty ports, with their harmonious and generous ideas of international government, were of the fine flower of Western thought. But the old privileges are now open to gross abuse and have become a constant source of irritation to the Chinese. In their minds at least the education introduced from the West and the privileges enjoyed by the Westerner in China are responsible for much of the present trouble.

Causes of Unrest

Then the old theocratic basis of national and communal life in China, resting as it has done throughout the ages upon a discipline exercised through the Emperor as the Son of Heaven, and through the spirits of the ancestors venerated at every family shrine, received a violent shock with the revolution of 1911. The young republic in selecting its rulers has repudiated the theocratic idea, and tried to introduce the system of election in place of the age-long system of competition which, by ensuring the government of the country by the brains of the country, proved a natural safety-valve for the intellectual classes. It has also tried to whittle away the traditional autonomy of the provinces and to focus power and perquisites at Peking. As a result the civil administration of the country has broken down, the power and prestige of the civil authorities has almost disappeared, and a new class of military governors, known as Tuchuns, has sprung up in their place. The power of these new governors no longer rests upon prestige and divine authority : they can no longer govern without police, and with soldiers who were merely a part of the decorative scheme of things : they must have at least a show of strength. Many of them are men of ability and patriotism, but they have been compelled to safeguard their position by force of arms, recruiting and maintaining as personal guards large armies of men with little training, discipline or real martial spirit. There are no recognised revenues for the upkeep of these armed bands, who are consequently tempted to loot and squeeze whilst their patrons are in power, and to adopt the precarious livelihood of brigandage as soon as they are driven out by some stronger or more astute rival. Incessant local struggles and intrigues are the natural outcome of such conditions, and every man who can control one or two provinces for a time is naturally anxious to make all that he can out of the people, and to assert his authority over the Government at Peking. The control of Peking is an important asset, for the capital city

China in Evolution

is the recipient of the only regular revenues in the country, the funds derived from the customs and salt taxes, which are collected with foreign help ; and from the railways, which were built with foreign money and are run with a certain amount of foreign assistance.

The disruptive influences of the West on China are thus apparent—the new demagogic idea of government, the weakening of traditional discipline largely as a result of ill-digested Western education, the use of force as a factor in government, the privileges of the foreign resident and trader, and the necessity on the part of the foreign Powers of bolstering up some sort of central Government, which can be held responsible for the service of the foreign debt and other international obligations.

But there is a domestic trouble far deeper and more widespread than that caused by foreign influences—the excessive population of the country. China is now more densely peopled than at any time in her history, and even the tireless industry of her people can no longer wrest a decent livelihood for everyone from agriculture, which remains almost the only source of national wealth. The hungry north adds its yearly quota to the stalwart lads who can find no land to till, and who are therefore driven into the armies and brigand bands of the richer and softer southern provinces, where they are at once a menace to security and a fertile field for political agitation. The wealth of the country is being drained by these armed levies, who represent the surplus population, the hungry and restless masses of the unemployed—a problem for which there is no obvious solution except the steady spread of the Chinese beyond their present frontiers.

The main causes of the recurrent disorders appear, therefore, to lie in excess of population, lack of organised government at the centre, provincial irresponsibility, and a general sense of unrest caused by new thoughts and shortage of food. The presence and privileges of the foreigner are merely a contributing cause. The sense of

The Present Situation

grievance against the foreigner is neither widespread nor deep if one may judge by the courtesy and consideration which is universally accorded to him as an individual. There can be no doubt, however, that the foreigner and his privileges are increasingly conspicuous, a useful butt for the disgruntled, a good subject for propaganda, a scapegoat for those who hold in their hands the responsibility but not the power to give peace and security to the people—the sacred and traditional duty of the rulers of China.

II. THE PRESENT SITUATION

WE may now glance at the actual position. There are perhaps half a dozen men in the country who stand out by reason of their personality—though the Chinese and their system have little use for the individual, and generally make short shrift for anyone with ambitions to play the part of the strong man. Until a few weeks ago Wu Pei-fu was the hero of the hour. He had set himself to unify China by force, had attained a partial success, especially in the Yangtze Valley, and had then set to work to force into the fold the Tuchun of Manchuria, Chang Tso-lin. Chang was too strong for him. He has a rich province at his back, considerable ability as an administrator, and a good army. In a series of skirmishes and political manœuvres—the latter apparently the more important of the two—Wu was defeated, and is now in retirement at Loyang in Central China. Chang Tso-lin is therefore the supreme figure at the moment. He has selected as Dictator at Peking a veteran soldier, Tuan Chi-jui, a man of considerable prestige, and Chang presumably intends to afford military support to his Government. General Feng, known by his missionary friends as the Christian general, has an army of puritan iron-sides in the neighbourhood of Peking, and has declared his intention to put a

China in Evolution

stop to further fighting. But he has for the moment sought the seclusion of a monastery, and no one seems able to judge whether he retains any real control over his army or whether he has the power to play any decisive part for or against the new Government. Sun Yat-sen, the one-time hero of the South, a man of hypnotic charm but little staying power, has apparently lost most of his friends (including the rich and powerful Chinese communities overseas) by his experiments in Communism, which struck the practical minds of the Chinese as somewhat one-sided in its application. He is reported to be dying in Peking, and his death may possibly open the way for a better understanding between the Peking Government and the more moderate element among the Nationalist party.

We are left then with a Government at Peking, recognised by the Powers, but exercising little control over the provinces. The loss of life and destruction of wealth during the past six months have had no results, brought China no nearer to unification and given no satisfaction anywhere. They have merely brought into power a new party, the Anfu clique, in place of the old Chihli clique. Clique, rather than party, is the apt description, for no party principles or party programme are in question. The bond between the members of these cliques is purely a personal bond. Chang Tso-lin and Tuan Chi-jiu will not be called upon to define new policies, but to find a lucrative post for each man who has supported them in the struggle. The only hopeful sign lies in the fact that all parties are financially exhausted, and there is therefore a stalemate and a prospect of temporary peace.

Foreign Interests Involved

III. FOREIGN INTERESTS INVOLVED

WE may now consider the interests of the foreign Powers in the Chinese problem and its solution. British interests in China and the Chinese have been almost entirely confined in the past to the conduct of trade and the freedom of their commerce from political interference, monopolies and irregular taxation. British investors have lent freely to China and have had little cause of complaint, for their investments have generally been secured on revenues collected with foreign help and on which no actual default has occurred in spite of constant internal disturbance. The total figures of trade have shown a steady increase even during the period of most acute unrest, though individual traders have suffered heavy losses owing to the sense of insecurity, the collapse of local currencies and the disorganisation of railway communications. The British communities congregate mainly in the treaty ports, where the municipal government is conducted with great efficiency and with little interference from the Government. They enjoy privileges of residence and trade under consular jurisdiction and their own national laws, and they have few dealings with any Chinese beyond the little circle of *compradores* and Chinese merchants through whom their goods are bought and sold. Apart from trade the British Empire has a special interest in the affairs of China owing to the presence of strong Chinese communities in Hongkong, Singapore, the Straits Settlements and Malaya. The British in these outlying dominions have proved that they can work with the Chinese on terms of complete understanding and whole-hearted co-operation. These Imperial considerations and our varying interests along the Pacific coasts make it the more important that we should gain some sympathetic understanding of the Chinese point of view.

China in Evolution

The Americans are in much the same position as the British, though their trade is of less importance and their vested interests less valuable. They have, however, devoted more attention to the educational and cultural problems of China, thus coming into rather more direct contact with the people and the authorities throughout the country. There exists in America a considerable body of public opinion which is well-informed about China and deeply interested in China's problems. For this reason American co-operation in dealing with China's affairs is of importance and value.

The British and Americans have one new problem in common. They have begun to break away from the treaty ports and to carry their trade and their work into the interior. The old treaties furnish justification for this new departure, which has added considerably to the wealth of the country. But it has created new problems, unforeseen at the time of the old treaties, and the position of the British and Americans working in the interior now calls urgently for consideration and mutual agreement.

The Japanese are naturally more directly interested in China than any other nation owing to their geographical propinquity, with all its political implications. They have expended large sums of money in developing Manchuria, and they have incurred considerable (and partially unsecured) financial commitments with succeeding Governments, both at Peking and in the provinces. It is not surprising that they show a steady determination to play a prominent part in the international affairs of China, or that they devote large numbers of able and hard-working men to service in China and Manchuria. The Japanese have once tried the experiment of a policy of domination in China, but they were quick to realise its futility and the vulnerability of their trade to boycott and passive resistance. Their policies were reshaped at Washington in 1922, and they have fulfilled the obligations there undertaken with honour and in good accord.

Foreign Interests Involved

The Russians are also deeply concerned in Chinese affairs owing to the long frontier line between the two countries, and the position of the Chinese-Eastern railway through north Manchuria, which connects their trans-Siberian line with the Pacific terminal at Vladivostock. The Soviet Government has recently concluded a treaty on general principles with the Government of China. But, whilst its own essential interests have been safeguarded with great diplomatic ability, some misgivings have already arisen as to whether the somewhat vague promises and concessions of that document will ever mature when they operate in favour of the Chinese. The rank of the Soviet representative at Peking has been raised to that of ambassador. And Russia has gracefully waived all extraterritorial privileges—in which incidentally her people have little direct interest, for they are mainly concentrated in the railway zone of north Manchuria, over which Russia evidently proposes to retain complete if unostentatious control. The retrocession by Russia of extraterritorial rights has had a stirring effect in Chinese circles, especially in the Press and among the more vociferous members of the community. They demand a similar concession on the part of the other Powers, and the Soviet ambassador has lost no opportunity to stir up trouble for his diplomatic colleagues, their Governments and peoples, by exploiting this somewhat empty concession and conducting a bitter and highly personal campaign against the imperialist Powers, the capitalist trader, and indeed every interest which is not pledged to Bolshevik sympathies. This campaign has had such apparent success that it has created grave misgivings among China's older friends and among the great bulk of the Chinese themselves, who, as a hard-headed nation of traders and small-holders, have little faith in communistic measures or government interference. There is no likelihood of a serious communistic experiment or revolt in China, but the propaganda so freely directed from the Soviet Embassy at Peking, together with well-directed supplies of funds from Moscow, have accentuated

China in Evolution

and focussed the general sense of restlessness and cannot be ignored.

The Germans are flocking back to China and, by steady work and a standard of living far below that of the ordinary foreigner in China, they are rebuilding the foundations of a trade which suffered a temporary collapse during the war, but which bids fair to become once more a strong competitor to British trade. The Germans, like the Russians, have relinquished their extraterritorial rights under the post-war treaty by which they have resumed commercial relations with China.

Such, then, are the main foreign interests in China. It was recognised in 1921 that the time had come for a reconsideration of the relations between China and the treaty Powers. The old system by which the Diplomatic Body acted as trustee for all foreign interests and spoke with a strong and united voice, had broken down as a result of the war and of changing political conditions in the outside world. The case of China was laid before the Washington Conference and the Powers there represented pledged themselves to readjust conditions, to remedy some of the more obvious grievances of China, and to convene two conferences in China for the specific purposes of examining China's claims to a greater measure of tariff autonomy and to a reconsideration of the application of extraterritorial privileges.

Had those conferences assembled in 1922, as was the intention of the Powers assembled at Washington, much trouble would have been spared and China's relations with the West would not have drifted into the present state of distrust and confusion. But action was delayed, partly owing to China's own request for a postponement of the commission to investigate extraterritorial conditions, and partly owing to the refusal of France to ratify the Washington treaties until China had agreed to the payment of the French share of the Boxer indemnity in gold. China was and remains irritated by the introduction of this extraneous issue, of which not only France but all

Tariff Autonomy and Extra-territoriality

the other signatories have had to bear the brunt, and has not ceased to blame the Powers for the delay in effecting an increase in the tariff, which constitutes the main revenue of the central Government.

IV. TARIFF AUTONOMY AND EXTRA-TERRITORIALITY

THE time has come when the West must have some new understanding with China unless the breach between them is to grow wider. China stands at the parting of the ways, restless and questioning. Is she to throw in her lot with the East against the West : or to take the more normal and natural line, the line which is traditionally hers, that of a great peaceful nation, proud and a little reserved but full of humanity and the will to live and let live ? The answer to that question will be largely decided by the diplomacy of the West. If our statesmen can decide what we really need, and discover what China really needs, and then seek a settlement on a basis of mutual understanding and on broad and generous lines, China is likely to play a helpful and constructive part in world affairs within the next few years. Much of the spade-work must be done by the West. China for some reason or other is always slow and reluctant in putting forward a case for herself. The rapidly changing Governments of to-day have not the machinery or the experience in the conduct of international affairs to enable them to speak with any great weight for their own people when it comes to forming policies. They incline inevitably to opportunism and shrink from unnecessary responsibilities. But there are certain broad policies in which they are sure of popular support—and resistance to foreign privilege is one of them. China has the power nowadays to enforce her will in any measure which will command popular acclamation. If Western diplomacy fails to present a case which appeals to the Chinese they are apt to take the law into their own hands. They did so

China in Evolution

in promulgating the recent trade-mark law, and they will do it again in more important matters in case of need. They are quite conscious of the fact that many of the international questions in which they are concerned can be studied and prepared better by the West, but they are no longer in the mood to accept dictation from the outer world. And they very naturally demand full consideration for their point of view.

Our own requirements are simple : reasonable security of life, property, trade, currency and communications from civil war, brigandage and irregular taxation ; and the consolidation of the unsecured debt.

China's requirements are very similar. She believes besides that she is entitled in reason and in justice to at least some measure of tariff autonomy and to some modification of the present extraterritorial régime. The representative spokesmen, both of her Government and of her people, remind us persistently that she will not be satisfied with less than this, and there is no reason to doubt the earnestness and determination behind their reiterated statements.

The foreigner in China is naturally averse to any whittling down of old and cherished privileges. He knows that Chinese ideas of administration and living conditions are different from those of the West ; he remembers the unfortunate experiences of that handful of foreigners who first beat their way into the China trade through the factories at Canton. He feels that logic and common-sense are on his side in resisting any interference with the efficient municipal administration of the treaty ports. And, when there is any question of modifying the present extraterritorial status, he is only too conscious of the results which would ensue if full responsibilities of jurisdiction in modern civil and commercial law were suddenly thrust upon a people whose civilisation and history have enabled them to keep free from such burdens.

The Chinese, on their part, realise that advantage is

Tariff Autonomy and Extra-territoriality

taken of extraterritorial privileges nowadays by many who have no great claims to respectability ; and they specially resent the tendency of certain Powers to encourage Chinese to claim foreign citizenship, and thus to evade their responsibilities as members of the Chinese community. They also desire an opportunity to gain experience in modern municipal government and in the administration of justice in the modernised areas of the treaty ports, where incidentally they have immense vested interests. And they find a specific grievance in the retention by the Shanghai Municipal Council of control of the Mixed Court, even so far as purely Chinese cases are concerned. There can be no question in fact that the Chinese have certain claims to consideration from any commission which may investigate the general operation of the old treaties ; that many anomalies could be abolished, and many grievances removed without any injury to legitimate foreign interests. The respectable foreigner in China has indeed all to gain by preventing the abuse of treaty privilege. There is no reason to believe that the Chinese desire the actual abolition of extra-territoriality. Consular jurisdiction, when it is exercised without abuse, is a convenient procedure for all concerned in the present stage of transition between two forms of civilisation. A settlement of this vexed question affording satisfaction to both sides can certainly be found if it is handled in a reasonable and sympathetic way, and without further delay.

The British and other foreign communities in China are by no means reactionary in sentiment, and they have a full appreciation of the weight and value of Chinese co-operation. They have performed a task of unique interest in the government of their "model settlements" at Shanghai and other treaty ports, which owe their efficiency and good repute to the tireless and self-sacrificing work of busy men. The advice and help of those men will be at the disposal of any commission of investigation, but they have not the time nor is it their proper part to

China in Evolution

carry the burden of political readjustment caused by changing conditions in international affairs.

Tariff revision is the next, and perhaps the most important, problem now under consideration in China. There is first of all the sentimental appeal—the desire on the part of the Chinese to make some advance in the direction of tariff autonomy. With this is involved the more practical question of China's financial position, which affects the very foundations of her welfare not only in external but in internal affairs. The struggles of the past few years have been largely a struggle for funds. The only reliable revenues are those collected with foreign help. The provinces consider that Peking gets too high a share of them. Peking in turn complains that the provinces hold back a great deal that belongs to the Central Government, both traditionally and by the terms of the republican constitution: that the administration is starved for funds and consequently unable to function effectively.

The Washington Conference sought to settle the matter by an agreement that a $\frac{1}{4}$ per cent. surtax should be added to the present 5 per cent. tariff, with an additional surtax on luxuries. But, if the Powers really want to help China to put her house in order, without intervention or interference in her internal affairs, they must tackle the question of tariff and finance on broader lines than this. The Government of China requires more revenue nowadays, and the people can afford to pay it if it is collected in a reasonable and regular way; trade also can afford to carry a fuller measure of taxation if it is imposed in such a way as to stimulate and not to stifle trade by unscientific and doctrinaire experiments. But, in the present state of the country, it is the duty of all patriotic Chinese and of all friends of China to safeguard the collection, distribution and use of funds for national and not for party or private ends.

The central Government, the civil service, and the provincial Governments are constantly starved for money

The Machinery of Settlement

and the chronic struggle for cash results in every kind of abuse. The only apparent remedy is to help the Peking Government and each provincial Government to collect a regular income, to be paid under such guarantees that it will not encourage recruiting and consequent banditry, and will guarantee for trade an absolute immunity from irregular taxation. The practical application of such guarantees is naturally no easy task, but experience has proved that it is not impossible. The British Empire in particular requires a new commercial treaty with China, in which we should be prepared to accord a substantial increase in the customs dues and in the excise in exchange for complete freedom of trade from all irregular taxation. China also needs some help in securing the independence of her national communications from arbitrary interference on the part of every military adventurer who chooses to commandeer these national assets for his private ends. There is reasonable hope that she would welcome assistance in this and in other national activities if she were once convinced that such assistance would not be accompanied by attempts at political intrusion.

V. THE MACHINERY OF SETTLEMENT

SURROUNDED as she is by strong neighbours, each with its special interests and incessant demands, it is scarcely surprising that China looks with suspicion on every offer of help from abroad. She has had some unfortunate experiences and she does not know whom to trust. The failure to enforce the Washington Treaties has increased the sense of strain. It is now highly desirable that China and the other signatories of the Washington Treaties should get together again and formulate a definite programme of financial and economic readjustment.

It is often argued that it is useless to try and deal with

China in Evolution

China so long as she has no stable government. But, if we are to wait for a settled government before outstanding questions are tackled, we may have to wait a long time. A hundred years is a brief spell in the history of China's civilisation, and her political evolutions have taken a very leisurely course in the past. The West wants to hasten the process now because vital interests are at stake. The task of the moment is to build up a government, and that cannot be done until the questions of finance, communications and provincial responsibility are settled ; until Peking and the provinces can see that their interests are common and not divergent.

A conference in China is urgently needed, with full power to decide on the various questions now calling for settlement, including some measure of tariff autonomy, the readjustment of foreign jurisdiction, the unsecured and partially secured debt, both foreign and internal, the taxation of trade and the conditions under which trade and industry are to be conducted in the interior, the independence of the railways, the control of minting and paper currency, and the distribution of revenues with due regard to the interests of the provinces and the Chinese banks. The problems are neither so difficult nor so complicated as they appear on the surface. There would be no difficulty in raising sufficient funds for China's legitimate requirements if the task was undertaken by thoughtful and experienced hands. They should be mainly drawn from among the Chinese themselves, though they will no doubt welcome a certain amount of assistance from outside. What they chiefly need is a little moral support and sympathy in getting the machine into working order.

The fear that such a conference would have to deal with a powerless Government is hardly well-founded. The representatives of the West would have a great deal to offer. And, when real settlements are in the air, experience teaches us that every strong factor in China finds some way of making its voice heard ; there are fortunately no secrets in

The Machinery of Settlement

China. That side of the question need cause no anxiety : we can leave it to the Chinese to see that they are properly represented at any conference in their own country. And there will be such publicity for everything that happens that any decisions would have the weight of public opinion behind them. From our own point of view, a conference is of such vital importance to British interests that we should do everything possible to encourage it without delay. There need be no talk or thought of intervention. It is impossible in practice for the foreigner to intervene in China's internal affairs. But China, like every other country, is now so entangled in international issues that she will no doubt be ready to talk internationally if once she is sure of a patient hearing and a square deal.

Our interests are identical with the interests of the Chinese in the long run. We want a peaceful, prosperous and united China ; we want the sound, solid business men of China to be free to deal with us without interference and restraint ; and we want political sympathy and understanding in regard to our common problems in Eastern Asia. That is all.

If the West should fail to stand by China now we may expect some rather startling changes, for China has begun to feel her strength. Unwelcome restrictions tend to be brushed aside impatiently and without great consideration or realisation of consequences—a process of which we have already had unfortunate experience. If we fail to recognise the legitimate demands of China the prospects of the foreigner and his trade and his investments may become rather gloomy. The experiments of Turkey have been followed with some interest in China. Their repetition in China would be a blow not only to our trade, but to the solid interests of our Empire in Asia and the Pacific.

China in Evolution

VI. CHINA, A NATION

If we desire to help China and to help our own interests in China we must try to appreciate something of her point of view. Her historical records date back for 4,000 years, and we know that even at that time she had reached a stage of civilisation which has continued its unbroken, if somewhat static, course until the present day. She has occasionally been subjected to military conquest, but she has absorbed all her conquerors. These facts alone should make us pause before we venture on too sweeping a criticism of her ways. It is clear that she possesses some vitality, some sense of continuity, which has eluded other and more forceful human communities. It is true that her history has been a history of minor rebellions, that the soul of the nation has emerged through the evolutionary processes of struggle and suffering. Five hundred years before the birth of Christ, Confucius found his country labouring under much the same conditions of internal strife as exist to-day. He made up his mind that the political confusion was an indication that men were thinking and therefore acting badly. So he travelled about the country and spent his time in discussion and thought. His conclusions were simple. He saw the whole universe as one vital activity in which man alone had the gift of freewill and intellectual power, and was thus able to influence both his own fate and that of his neighbour. He saw in man a creature instinctively good, but often turned out of his normal track by selfishness. From his teaching have evolved the three loyalties of China--loyalty to heaven, the spiritual citizenship; loyalty to country; and the loyalty between father and son, involving the wonderful affection and tranquillity of Chinese family life, the duty and responsibility of handing on from generation to generation the torch of knowledge, honour and truth. Other teachers have influenced the Chinese race to some extent, the most notable perhaps

China, a Nation

being Laotze and Buddha ; but the old Confucian tradition still holds after 2,000 years in all its simple force. It is an interesting fact that some of the most brilliant of the students who have been educated abroad, and who have come in touch not only with the materialism but with the real scientific thought of the West, are now spending their time in Confucian research. They are convinced that the older philosophies of China need only the stimulus of scientific thought to fill all the needs of the human mind in its eternal struggle with the problems of life. No one who has any intimate knowledge of these men of modern China can fail to be impressed with their earnestness, their determination and their capacity for sacrifice. They have intellectual gifts of a high order, an originality of thought and a spirit of true internationalism which will have far-reaching influence when once their voices are heard above the clamour of petty strife. The very reticence of the Chinese, the modesty, good manners and good taste which are ingrained in them as a result of an ageless philosophy, are in themselves an evidence of strength, an indication of the reason why the national life and civilisation of China have withstood the test of ages and carried the country as an undivided unit to the frontiers of the modern world.

If we are to help China and to find a mutual understanding on essential points of contact it seems important that we should grasp something of the intellectual forces and currents in her national life. The West could afford to ignore them when it was strong enough to impose its will. But now we must look for peace by agreement. The young men are again calling to their fellows all over the country to look back to Confucius, to develop the best that is in them, and to exercise a conscious control over the fate of their country. It is the same spirit, in a less balanced and more extreme form, which is creating the new revolutionary, socialistic and bolshevist movements, the strikes and labour unrest. The direction of this spirit of revival, the trend of this intellectual renaissance, is a matter of some import-

China in Evolution

ance to the West. It will be unfortunate if the extremists of Soviet Russia are left to exercise the main influence and to assume a position as the only friends and liberators of China.

In spite of civil commotions the Chinese are now a more united people than they have ever been throughout their history. There is among them a growing sense of brotherhood, which extends to the great colonies of Chinese overseas. In the days of present suffering they have come to a closer understanding and affection than ever existed when they were free from outside pressure. That pressure has created a new sense of inquiry and criticism. The life and teachings of Confucius mark one period of renaissance in Chinese life. There is evidence that a similar intellectual and spiritual renaissance is already beginning again. Like all such movements, springing from suffering and sorrow, the rebirth of the Chinese spirit will no doubt be marked with excess. There is a general demand for greater individual freedom, for greater emancipation in life and thought. It finds its keenest expression among the young, though it is not confined to them. It is strong among the women, who bid fair to exercise a remarkable influence in the coming generation. It has created a ferment among the industrial workers, the people dissociated from their villages and their homes, and among the great multitudes who are living on the narrow margins of life. Revolution, strikes, and socialistic movements are everywhere under discussion. They are the natural outcome of restlessness, they express the same spirit that led to the great intellectual, artistic and nationalist revival, with its consequent excesses, in the time of the Tang dynasty in the eighth century. It seems likely that they may recreate China as a nation whilst leaving more or less intact that tough social structure which has survived the shocks of centuries. This is not a force to be ignored in the modern world of experiment and change. The West cannot afford either to disregard China or to leave her suspicious and fearful. The time has come when we must make a real

China, a Nation

effort to understand something of her spirit and her needs, and to win her sympathy and co-operation in world affairs. The conflict of colour, the pan-Asiatic idea, the lure of bolshevism, the possibility of ridding the country of all foreign influence are spread before her restless eyes. If we have faith in our own civilisation, our own ideas and ideals, we must get to work and try to secure a hearing, teaching where we can and learning where we may. We know desperately little of the Chinese, and they of us. The British in China are mainly business men who have their heads and hands full of immediate things. With the return of the Boxer indemnity, we shall have an opportunity to draw a little closer the spiritual and cultural link between our two civilisations. The union of Chinese philosophy with Western scientific thought may yet produce a new basis of living in the world. It is greatly to be hoped that the indemnity funds will be used not for some transient and material end, or for the diffusion of crude educational theories, but that they will afford some opportunity for the Chinese to examine in their own country and in their own language something of the best scientific thought of the modern world. And that they will enable a limited number of highly-trained and representative Chinese and English gentlemen to undertake in each others' country a research into the problems of the two civilisations which have grown up on parallel lines but have had no opportunity of meeting. A mutual understanding of the best in each civilisation would heal the breach and do great service to the world. It is to be hoped that our statesmen will give thought to these broader considerations when they tackle the practical needs of China at an international conference, and that without delay. The time has come when we must adopt some policy in regard to China. Things are drifting now, and unfriendly and disturbing influences grow apace. There is little doubt that China would welcome a helping hand from the Anglo-Saxon world if it was extended with courage, courtesy and sympathy. Will it be extended ?

VOLCANOES IN INDUSTRY

WE read in the morning papers that Etna is again active, that the crater is being reconnoitred from the air, and that the inhabitants of the surrounding country are forewarned and vigilant. On the same page there are accounts of strikes at home and of disputes that may lead to strikes, of claims for higher wages or shorter hours, of widespread unrest in the principal industries of the country. In the years since the war the ordinary citizen of Great Britain has come to regard these periodical tremors in the industrial world and the eruptions which follow them with something of that resignation in the presence of an overwhelming force with which the Sicilian peasant accepts the manifestations of his mountain. After all, he is inclined to say, 1924 was a quiet year ; only $8\frac{1}{2}$ million working days were lost through trade disputes, fewer than in any year since 1918 ; an upheaval is almost due.

It is a dangerous attitude. There is nothing either natural or inevitable in these vast industrial disturbances, nor was there ever a moment less opportune for a further outbreak. The situation of the staple British industries has hardly changed, or has changed for the worse, in the last twelve months. The number of unemployed persons on the register at December 31, 1924, was 1,319,000 against 1,327,000 a year earlier. In the trade unions which make returns to the Ministry of Labour—they are mostly unions of skilled workers—the percentage of members unemployed declined steadily from 14 in January 1923 to 7 in May 1924, and has since risen steadily to 9·2 at the end of last year. In some industries, such as engineering, there has been a

Volcanoes in Industry

slight improvement; in others, such as coal mining and the iron and steel trades, a definite decline. Figures for the mining industry are given in some detail below. As to iron and steel, it is symptomatic that only 167 furnaces were in blast at the end of 1924 as against 204 a year earlier.

The general political and economic conditions affecting the world's trade are more favourable than at any time since the war, and in the long run the return to stability must benefit British trade not less than that of other nations. But the effects in the immediate future are much more speculative. Continental, and in particular German, competition is already more formidable. It has driven British coal from many of its markets abroad, and there is an ominous rise in the imports of steel and other manufactured goods into Great Britain. In time, no doubt, the working week will tend to become shorter and wages to rise on the Continent; in time, too, the extent of the financial burdens imposed on our competitors by currency stabilisation and the reparations settlement will be reflected in their industries. But there is every reason to believe that for the next few years the competitive power of British industry will be more highly tested than at any period in the life of this generation. Given peace in industry and a determination on the part of all those engaged in it to employ every practicable means for increasing industrial efficiency, there would be little ground for apprehension. But any general increase in the costs of production or another series of protracted strikes would bring consequences so serious as to be not easily exaggerated.

The chief industries in which a decision one way or the other will shortly have to be made are coal mining, engineering, shipbuilding and the railways. The first three of these are exposed to the full blast of world competition and the real wages paid to most of those who are employed in them have been for some time lower than in

Volcanoes in Industry

1914. The railways are in a different category. The wages of railwaymen are relatively extremely high, and although railway rates have not been correspondingly raised and are only 50 per cent. above the pre-war level, even that additional charge is felt to be a serious burden on the whole industry of the country. The immense organised force of the railway service is now being directed to the widening of the gulf between that service and the competitive industries, at a time when trade union leaders are joining with employers in those industries in demanding reductions in railway rates.

It is the unsheltered trades which reflect the true situation of industry generally. The miners, after a period of marked improvement in the coal trade during 1923 and the early part of 1924, now find themselves in worse case than ever. Their wages are regulated under the agreement of 1921 as modified in their favour in May last. Standard wages are a first charge on the proceeds of the industry in each district, and after standard profits have been taken by the owners any surplus is divided between wages and profits in agreed proportions. The miners have thus a fixed interest in the prosperity of the industry in their district, and there is a limit to the extent to which they are called on to share in its losses, since a minimum wage of 40 per cent. in excess of the 1915 rate is guaranteed, whether the proceeds of the industry are sufficient to pay it or not. The returns of the last two years show the operation of this system in varying conditions of trade. The Mines Department return is based on the figures of collieries which produce 92 per cent. of the total amount of saleable coal raised. During 1923 the quarterly average was 65 million tons with a credit balance of 2s. 2d. per ton. For 1924 the figures are :

First quarter	67	m. tons ..	2s. 9d. per ton	credit balance.
Second "	..	61½ m. tons ..	1s. " "	" "
Third "	..	59 m. tons ..	0·29d. " "	" "

Volcanoes in Industry

The average output and the average earnings per man-shift were :

First quarter 1923	18·25 cwt.	9s. 8d.
" " 1924	17·79 "	10s. 3d.
Second " 1924	17·48 "	10s. 11d.
Third " 1924	17·33 "	10s. 10d.

The wage earners on the colliery books were 3·8 per cent. less at December 31, 1924, than a year previously. The average number of days worked per week fell during 1924 from 5·68 to 5·36.

These figures relate to the country as a whole, and include those of districts such as South Yorkshire in which rich seams and uniform conditions of working have enabled the collieries to show a considerable surplus and to pay in consequence reasonably high wages under the agreement. The results of a district, such as South Wales and Monmouthshire, present an even more striking picture of the conditions obtaining in most of the coalfields. In December last the industry in South Wales for the seventh successive month worked at a loss—that is to say, the proceeds of the sale of coal were insufficient to cover even the standard wages, much less to pay any part of the standard profits. The accumulated loss over the period of seven months was £900,000. The output for the first four months was 16·8 million tons and the average wages cost per ton 11s. 10d.; for the last four months, during which the modified agreement of May last was in force, the figures were 15·1 million tons and 13s. 4d. Exports of coal from South Wales fell from over 30 million tons in 1923 to 25½ million tons in 1924. How far the loss of trade is accounted for by the increase in wages costs since May last, or how far it is attributable to the revival of German production, must remain a matter of opinion. But it is at least clear that neither coal mining nor any other industry can afford to bear such losses indefinitely, and that in the absence of any change the process which has

Volcanoes in Industry

already begun of closing down non-paying mines must be expected to continue.

In the face of a situation so serious as this, the miners themselves and their leaders are divided. Mr. Smillie and the late Minister of Mines, Mr. Shinwell, are devoting their attention to a more intense propaganda in favour of nationalisation, though with a lack of confidence in the result which in present political conditions is not unnatural. There is a strong movement in the Miners' Federation, headed by Mr. A. J. Cook, the new secretary, which appears to be in favour of terminating the present Wages Agreement at the first possible moment, in June next, as a means of obtaining a living wage for all miners. There has been talk in some districts of a six hour day and a minimum of 12s. a shift. Mr. Cook, who describes himself as "a disciple of Karl Marx and a humble follower of Lenin," has said that he wants to avoid a miners' strike alone, and that he proposes to meet the railwaymen, dockers and others, because he wants to test solidarity before he moves. Mr. Cook's predecessor, on the other hand, Mr. Frank Hodges, has shown as a private citizen an appreciation of the real meaning of the crisis in the industry, and he has not shrunk from expounding his views to working miners in a tour of the coalfields. Mr. Hodges rejects both the 12s. minimum and the proposal attributed to a section of the owners for a return to the eight hour day. He sees that nationalisation is unattainable, even if he still believes in it. He asks for a five years' peace in the industry and for a joint inquiry by owners and men into the economic, social and scientific aspects of the position. He advocates the unification of all collieries in the same geological area, a reduction of 33½ per cent. in railway rates on mineral traffic, and international organisation with a view to the regulation of the world's coal output. Whatever opinions may be held as to this or that detail of Mr. Hodges' position, the general influence of his argument in favour of reason and against a blind resort to

Volcanoes in Industry

the strike is undeniable. There are signs that he is not alone in this attitude. The owners have themselves proposed a joint inquiry "to consider the position of the industry, the cause thereof, and the possible remedies," and while this invitation has not been accepted, the executive of the Miners' Federation have agreed to meet the owners without prejudice. They are also collecting from the districts draft amendments to the Wages Agreement to be considered at a delegate conference on February 26.

The problem of the engineering industry is in some respects less acute than that of coal mining. Here too standard wages are low, the present basis rate of 55s. 6d. comparing with 38s. 10d. in 1914. Actual unemployment has been more serious in engineering until the recent closing-down of pits, but in the last twelve months the comparison has swung over to the benefit of the engineer. Since the engineering lock-out of 1922 the workers in the industry have shown an admirable temper in accommodating themselves to difficult conditions. They have worked well and have borne their share of the sacrifices necessary to facilitate a revival of the industry. The unions first put forward a claim for an increase in wages during last summer, and they were met by a full statement from the employers of the position of the industry. By protracted conferences to examine this statement, the executives of the unions tacitly postponed the claim, but it has now been renewed and pressed. The case against any advance is strong on the merits. Although engineering employment is better than it was, it is still in many branches precarious and there is little or no margin of profit in most of the orders taken. An advance even of 5s. a week means an increase of at least 5 per cent. in costs of production, and at the beginning of what is generally expected to be a period of fierce foreign competition any addition at all to costs must involve a grave risk. There is no reason to doubt that many of the men's leaders recognise this danger, but the pressure on them from the extreme

Volcanoes in Industry

element in the rank and file has been persistent. If, as seems likely, an offer is made by the employers, it can only be as a choice of the lesser of two evils.

The decision in the engineering industry, whatever it is, will have repercussions in shipbuilding. Applications for wage increases for amounts varying from 10s. to £1 a week have already been presented to the employers. The basis wage in the shipyards is 10s. lower than in engineering shops, and it is doubtful whether that difference is large enough to reflect the relative position of the two industries. There has been very little improvement in the last year in the deplorable state of the shipbuilding industry—31·9 per cent. of the persons engaged in the industry were unemployed at December 31 last, as against 34·2 per cent. a year earlier. The gross tonnage under construction, excluding warships, was 1,297,000 (of which 60,000 were in suspense) in December 1924, against 1,395,000 (of which 160,000 were in suspense) in December 1923; in other words, if allowance is made for the tonnage on which construction was suspended, there was no change. The average tonnage under construction at any time during the twelve months before the war was 1,890,000. Building has thus fallen to two-thirds of the pre-war tonnage, and if we take into account the great diminution in warship construction it will be obvious that the full comparison is even less favourable. Moreover, shipbuilding prices are still ruinously low and the competition of foreign yards as serious as ever. It is difficult to see how in present conditions any addition to shipbuilding costs can have any other result than an increase in unemployment in the industry.

In all these industries we have been dealing with claims made by men who are for the most part skilled craftsmen and who have all been working for the last three years with the shadow of unemployment on the threshold and for wages much below the pre-war standard. Whatever may be thought of the economic merits of these claims,

Volcanoes in Industry

it is intelligible that the persistence of such conditions should breed impatience, more particularly when the skilled worker who is exposed to them sees all around him workmen in monopolistic trades immune from his risks and better remunerated. The railway service is the most prominent of these more fortunate trades, not merely on account of the numbers employed in it but because the cost of the services which the railways render to other industries is a most important factor in determining their competitive power in the outside world. It is a sign of the times that the railwaymen have put forward recently a programme for the improvement of their own conditions of service more far-reaching and more costly to their industry than any demands yet made by the miners, the engineers or the shipbuilders. This "All-Grades" programme of the National Union of Railwaymen includes pensions at 60, a general increase in standard rates of wages with a minimum of 6s. a week and a reduction of the working week to 44 hours. The Association of Railway Clerks is co-operating with the N.U.R. by demanding improved conditions for its younger members. True to their one fixed principle of never supporting the N.U.R., the Society of Locomotive Engineers and Firemen remain for the moment quiescent, in the enjoyment of the advantages won for their members by the strike of January 1925.

Naturally different estimates of the cost of the new programme are given by the companies and the unions, and as some parts of it are not worked out in detail—e.g., it is not clear whether the pensions proposed are on a contributory or a non-contributory basis—there is obviously scope for differences in calculations. The companies claim that the demands would cost the railways from £30 million to £45 million per annum, and the unions apparently accept an estimate of from £10 to £15 million. If these figures should appear low by present standards, it is worth pointing out that the total wages bill of the

Volcanoes in Industry

railways before the war was £47 million per annum. It is already £120 million—an increase of 155 per cent.—and the present proposal would add a sum equal to from one-third to the whole of the pre-war wages total. It is not surprising that the companies have rejected the new programme or that they have countered it by claiming a reduction of from 4s. to 6s. a week in standard rates of wages. The claim and the counter-claim will now be presented to the National Wages Board for the railways, on which the companies, the unions and the users of the railways are all represented. The course of the hearing before that tribunal and the negotiations which follow it will offer an interesting commentary on the rival plans of the two miners' leaders—Mr. Cook, who wishes to test the solidarity of the railwaymen before he leads the miners into a strike, and Mr. Hodges, who asks for an immediate reduction by one-third in the railway rates on coal.

It is improbable that in the minds of the rank and file who are struggling in competitive industries there is any excess of sympathy for the railwaymen. Solidarity is a good watchword, but the only manifestation of solidarity which has ever had much support from the National Union of Railwaymen is that of its own members. The driving force behind this All-Grades programme is the ambition of the N.U.R. to go one better than any other organisation of railwaymen, and by the splendour of its achievements to force into the ranks of a union coterminous with the industry those powerful minorities of engine-drivers, railway shopmen and others who are still kept outside the fold by the older attachments of craft. Its most formidable weapon is the power of inflicting an almost intolerable inconvenience on the public and in particular on the inhabitants of London and other large cities. No other industry has that power in the same degree; and it is one of the irrational curiosities of these labour problems that the boilermaker or the engineer may be out of the yards or the shops for months for the sake of a pittance

Volcanoes in Industry

without the mass of the nation being more than dimly conscious of the fact, while the railwayman can obtain immediate and universal attention for his most exorbitant claims. It is easy for the popular Press during transport strikes to fill columns with tales of the heroism of John Citizen, who goes about his avocations amidst the turmoil "bloody but unbowed." But the hard fact remains that in recent years the railwaymen have been able, by the blackmail of public inconvenience, to force a series of compromises on which their present favoured position has been built up. The programme now put forward on their behalf may be a crucial test of the efficacy of that method. The real contest is not between the railwaymen and the companies or the general public, but between the railwaymen and the workers in other industries. Any improvement in wages or conditions on the railways means ultimately the further debasement of the miner and the shipyard worker and others like them.

In an account even so brief as this some evidence has appeared of the existence of two streams of opinion inside the unions themselves. It may be well, in conclusion, to add a word on this point. There are, in fact, clear signs that the division between the conventional Socialist and the Communist which helped to destroy the Labour Government is being repeated in the industrial sphere. Undaunted by their expulsion from the Labour party, the Communists have appeared inside the trade unions. The Minority Movement, which recently held a Unity Conference to promote "unity, national and international, to fight capitalism," is an aspect of Communism. Its aim is to overthrow the present industrial system. It is not concerned, like the older Trade Union movement, to secure for its members the best conditions attainable within the framework of each industry and in the circumstances in which each industry has to work. The Minority Movement stands for no compromise with Capitalism, and in the wages claims now on foot its support is given

Volcanoes in Industry

to the most extreme proposals. The real strength of the movement is unknown. The Unity Conference was dis-countenanced by the Trade Union Congress and banned by the Amalgamated Engineering Union ; and Mr. Cook, the miners' secretary, who was to have presided, found at the last moment that the business of his union would prevent his attending the conference. These are reassuring signs, but there is no doubt that the Minority Movement is strong and active enough to threaten the position of the older leaders and to compel them to press wages claims which many of them recognise to be inopportune.

THE PRESIDENT, THE SECRETARY OF STATE AND SENATOR BORAH

WHEN Mr. Hughes retires from the office of the Secretary of State on March 4, he will be able to look back upon almost twenty years of distinguished public service. He has been twice Governor of New York State, an Associate Justice of the Supreme Court under Wilson, Republican candidate for the Presidency in 1916, and Secretary of State under Harding and Coolidge. In this last office he initiated two international conferences of the first magnitude, both of them dealing with highly technical matters, both of them requiring all the gifts of statesmanship in order to reach conclusions of permanent value, both of them important contributions to world peace. Not only did he initiate these conferences : he took a decisive hand in them. There is testimony enough to his work as chairman of the Washington Conference for the Limitation of Armaments in 1921. Some day, the historian, with facts that are not now publicly available, will appraise the importance of his mediation in London and Paris in the summer of 1924, when, as an unofficial visitor to those capitals in the course of a holiday, he had conversations with British and French statesmen prior to the acceptance of the Dawes plan.

During the past four years certain policies of Mr. Hughes have been sharply criticised. Friends of the League have never forgotten that this man's name appeared among the Thirty-One who urged Harding's election in 1920 as the

President, Secretary of State and Senator Borah
surest way of hastening American membership. These friends of the League have borne him a grudge, and have taken advantage of every opportunity to make life miserable for him. Here was the one weak spot in the *aes triplex*, and the thrusts hurt, especially when they were delivered by men whom Mr. Hughes held in high personal regard. Again, during the Lausanne Conference, he was attacked from liberal quarters because he insisted upon the right of United States citizens to share on equal terms with other nationals in the oil of the Near East, and because he appeared to throw the mantle of government over certain fantastic railway concessions in Asia Minor which had been granted to a rather unimpressive American group. His vigorous refusals to consider the recognition of Soviet Russia made Senator Borah decidedly unfriendly to the Department of State, and thereby added fuel to the chronic hostility of the Senate. Lastly, a representative group of Americans, neither liberal nor conservative by label, have never accepted Mr. Hughes' dogma that no connection exists between debts owed by European States to America, and debts owed by these same European States to each other.

At the moment of his resignation, all these criticisms seem to lose their force. And now, when he is being praised in extravagant terms even by those who formerly took issue with him, it is only fair to them to add that they never disparaged his industry, his exceptional intellectual powers, his loyalty to his lights, and his integrity. Other men have brilliant gifts which they seem to hold in reserve for some greater task than the one at hand. But Mr. Hughes consistently gave the full measure of his talents, pressed down and running over.

President, Secretary of State and Senator Borah

I

IN his letter of resignation Mr. Hughes spoke of his long term of public service, and continued : " I feel that I must now ask to be relieved of official responsibility and to be permitted to return to private life." It is perhaps ungracious to look behind plain words, and speculate on " the real reason " of his going. Some have suggested that he hopes in this way to make himself available for the Presidential nomination in 1928. The suggestion, however, is not very convincing. Only a man who is possessed by an ambition for high office, and who has assiduously curried favour with politicians in order to establish a nucleus of support for his aspirations, would take such a step four years before the next election. And Mr. Hughes has exhibited neither of these traits. It has been rumored that he would like to return to the Supreme Court, perhaps as Chief Justice—for Mr. Taft is not in the best of health. But Mr. Hughes already knows the exacting demands which are made upon the time and health of members of that body. Even an appointment as Chief Justice could hardly appeal to him except as another call to public duty.

Speculation may well be left to those who are wise in such matters. We learn nothing by refusing to take Mr. Hughes' own explanation at its face value. Nevertheless, his resignation gives a fresh occasion for reflecting on the relation which exists between the Administration and the Senate with regard to the conduct of foreign policy. Under the Constitution it is the President's duty, and the work of his Secretary of State, to conduct foreign negotiations. It is the function of the Senate to advise and consent. The power to give consent implies the power to withhold it : but it does not, in all conscience, imply the power to withhold it out of caprice on every imaginable occasion

President, Secretary of State and Senator Borah
when a treaty is in issue. In 1867, authorized representatives of the United States concluded an agreement with Denmark for the purchase of the Virgin Islands. Seven and a half million dollars were offered and accepted. For reasons best known to themselves, the "consent" of the Senate was refused. In 1917, fifty years later, the sum of twenty-five millions was paid. In 1904 a treaty was negotiated with Cuba, relinquishing in favor of that Government "all claim of title to the Isle of Pines." The treaty has never been ratified. It has lain neglected in the Senate from that day to this. Only yesterday, under pressure from the White House, the Senate resumed its "deliberations"; and, searching for the document, they unearthed it in a box in a deserted room under the dome of the Capitol. So with the Treaty negotiated at Lausanne in 1922. It has been in committee and out of committee, it has been riddled and attacked and defended from the floor of the Senate. And all this sound and fury has gone on for thirty months, signifying nothing.

Of course, from the standpoint of the science of government, this opposition between Senate and Department of State ought not to exist. But there it is. If Mr. Hughes had surrendered to it, he would have surrendered an important prerogative of the executive branch of the government—that of taking the leadership in the conduct of foreign affairs. Nor does there seem to be any possible *modus vivendi* in these matters between the President and his Cabinet on the one hand and the members of the Senate on the other. For example, a precise plan for American adhesion to the World Court was placed before the Senate by Harding. It was explained to them and urged upon them by Hughes. It was supported by so many national organizations representing so many millions of citizens that one would hardly think that a corporal's guard could be mustered to vote against it. It was made a "plank" in the Republican platform of the last election. Mr. Coolidge advocated it in his first Presidential message,

President, Secretary of State and Senator Borah and he has recently returned to the subject in an address before a national convention of women's clubs. At every step of the way, the attitude of the Executive toward the Senate has been scrupulously correct. Yet because Senator X differs from Senator Y as to the exact phraseology of a certain proposed reservation, the entire matter still hangs fire.

Determined to yield nothing of the President's prerogative to the Senate, and finding it impossible to deal with them in the spirit of co-operation which the authors of the Constitution must have counted upon, Mr. Hughes was forced to think up ways and means of evading them. The "unofficial observer" was not just an American "gadget." Mr. Hughes invented him because it became necessary to send people abroad to sit on commissions, and because Congress had ruled that no official appointment could be made to any commission or body under the Treaty of Peace with Germany without its consent. So too, when he suggested the procedure whereby Owen Young and General Dawes were invited from abroad instead of being sent by the United States Government, Mr. Hughes pointed a way for American co-operation in framing the Dawes plan.

And while this article is being written, the Senate, led by the rump of the old Irreconcilables, is exploring the recent negotiations at Paris regarding the allocation of reparation payments among the Allied and Associated Powers. Their "advice and consent" to this arrangement has not been asked. The Department of State has ignored them. For this arrangement, says the Administration, is not a treaty in the usual sense of the word: therefore it does not require your approval. You are right when you draw attention to the fact that Mr. Kellogg, Mr. Herrick and Colonel Logan were acting in official capacities. But they were not acting within the field which you, by your legislation, have arrogated to yourselves, so far as appointments are concerned. These men did not, without

President, Secretary of State and Senator Borah your permission, walk on your forbidden ground—the Treaty of Peace with Germany. They dealt with questions arising out of the Dawes Report, and that's another matter. And since this Paris settlement does not bind the United States to any future policy with regard to Europe, since it is merely a schedule of the proportions in which German payments shall be divided among the interested Powers, the matter is one for the President and his Cabinet to deal with—not for the Senate.

These three devices of Mr. Hughes for the expeditious conduct of foreign business will serve to show the limitations under which he worked, under which his successor must work, and under which every American Secretary of State must work until such time as responsibility shall be definitely placed either upon the Executive or upon the Senate, and power to discharge the responsibility shall be provided. There are many people who seem to think that these difficulties began in the days of Woodrow Wilson and arose out of his political mistakes. The conflict, no doubt, was intensified by Wilson's dominating personality. But it began before the ink was dry upon the Constitution, and it will continue until the Constitution is changed.

II

THE "unofficial observer" was not merely an ingenious device for getting on with international business without the Senate. The very ambiguity of him was like the vagueness of most of us in this country concerning the degree of intimacy with European problems which the United States, at that stage of affairs, ought to assume. Mr. Hughes invented a colourless fellow, and we were mostly colourless fellows ourselves. A second stage was reached when Dawes and Young and Robinson sailed for Europe. They went with the good-will of the Administration; and though the President was not prepared to give

President, Secretary of State and Senator Borah
them official standing, it was understood that this quality might be conferred upon them abroad. And then, when their work was accomplished, the President and the people commended it. Another advance toward normal procedure was made, not when the recent Paris agreement was signed, but at the moment when Messrs. Kellogg and Herrick and Logan were officially appointed from Washington to represent the interests of the United States.

Now the task of erecting machinery for the more or less normal conduct of diplomatic relations with European Governments, even in a few matters connected with the economic rehabilitation of the Continent, had been a delicate and laborious one. Perhaps Mr. Hughes had labored it excessively. But be that as it may, the thing was done when Kellogg and Logan and Herrick took their seats at Paris. It had been done without striking fire with the Senate, and without arousing the fears of American people lest they be led back into the "diplomatic cockpit of Europe." If, in the course of time, it had been necessary to make the procedure more regular still, it is likely that the Administration could have taken a further step without exciting alarm.

It is humbly suggested that the representatives of Great Britain, France, Belgium, and Italy, so solicitous for the continued co-operation of the United States, might have let well enough alone. And if it really was necessary for each one of them, at the end of the Paris Conference, to make a statement for "home consumption"—if it was necessary to offset the unpalatable fact that the representatives of the United States had managed to secure a little more of the wealth of Europe—surely some form of words could have been found other than the expressions which were used. Mr. Churchill, M. Clémentel, M. Theunis and Signor Stefani each undertook to interpret for the United States the effect of the signatures of the American representatives, and people on this side of the water were startled to hear that their delegates had reversed American

President, Secretary of State and Senator Borah policy "after six years marked by misunderstandings and divergencies," and that they had, by the same token, provided "an insurance policy on the payment of reparations, a guarantee for their collection." M. Clémentel, in the Chamber of Deputies, went out of his way to add : "American participation is beyond price—it has cost us nothing. We should have been glad to pay highly for it." After six years of unsuccessful angling, the big trout had been landed—a beauty—well worth all the effort.

These speeches were seized upon by the American Press : "For twenty-five millions cash and in the guise of a grasping creditor," said the *New York World* of January 15, "with all Europe divided between soreness over our rigidity about money and laughter over the naïveté of our diplomats, we have sidled into the center of the whole tangle." They were seized upon by the Senate, none of whom seemed to care about the fact that the "last red cent" had been refused by the Allies, and that our representatives had in reality been satisfied by a figure some two hundred millions of dollars short of the original claim. They wanted to know whether the interpretation placed upon the agreement by statesmen abroad was accepted by the Department of State. If so, and if a reversal of the policy of the past five years had taken place, this was no casual matter to be disposed of without "their advice and consent." And if the United States, by this agreement, were binding itself to employ force, if necessary, to collect payments under the Dawes plan, this too was an affair of theirs. Confirm, or deny !

Mr. Hughes' hand was forced by these developments. He would have preferred, no doubt, to let the agreement interpret itself in the light of events ; if there might be some implicit moral obligation, that would be discovered in the course of time by the American people themselves, and acted upon. But his hand was forced by the very men abroad who never should have run the risk of forcing it. His statement follows, and it is printed in full. For if,

President, Secretary of State and Senator Borah as is likely, it should succeed in quieting the qualms of the Senate, it will remain as an official interpretation by the United States Government of the nature and extent of its obligations under the Paris agreement :

(1) The conference of finance Ministers, held at Paris, was for the purpose of reaching an agreement as to the allocation of the payments expected through the operation of the Dawes plan. In view of the inclusive character of these payments, it was necessary for the United States to take part in the conference in order to protect its interests.

(2) The conference at Paris was not a body, agency or commission provided for either by our treaty with Germany or by the Treaty of Versailles. In taking part in this conference there was no violation of the reservation attached by the Senate to the treaty of Berlin.

(3) The agreement reached at Paris was simply for the allocation of the payments made under the Dawes plan. It does not provide for sanctions or deal with any questions that might arise if the contemplated payments should not be made. With respect to any such contingency the agreement at Paris puts the United States under no obligation legally or morally, and the United States will be as free as it ever was to take any course of action it may think advisable.

(4) The agreement of Paris neither surrenders nor modifies any treaty right of the United States.

Mr. Hughes made no further comment : and the President approved his statement. But before the correspondents left the White House that afternoon it was made clear to them that "The United States desires the success of the Dawes plan," and that "this should be well understood." There is no guarantee for the collection of reparations in these words, nor is there anything signed, sealed and delivered about them. Nevertheless, they do indirectly disclose the attitude of the President himself toward the Paris agreement, and they are worth keeping in mind : first, because he is not given to using words at a time like this unless he wishes them to convey a meaning ; second, because the direction of American foreign policy is passing, and of necessity must pass, more and more into Mr. Coolidge's own hands ; third, because there are unmistakable indications that, so far as it is

President, Secretary of State and Senator Borah
within his power to accomplish the result, his policy will
be animated by the spirit of fair play and by a desire to
reestablish the good name and moral position of the United
States abroad.

III

THE President is rapidly gathering the threads of foreign policy into his hands. On January 5 Mr. Hughes submitted his resignation. It was announced from the White House on the 9th. On the 12th the Press was informed that Mr. Hughes would be succeeded by Mr. Kellogg, and that the London post thereby left open would be filled by Mr. Houghton, now at Berlin. These appointments were not preceded by the usual parleyings with Congressmen. The public was given no time to speculate about changes; private individuals were given no time to exert influence. A major operation was performed upon the diplomatic service with decision and dispatch. A few days later, the members of the Senate Foreign Relations Committee were invited to dine at the White House to discuss the still-pending Lausanne Treaty with Mr. Child, the American observer at that conference. During the month of January, either in formal addresses or in conferences with the Press, the President expressed his views on the Isle of Pines Treaty, the Lausanne conference, the recent Paris conference, the question of gun elevation, relations with Japan, the relation of the United States toward Nicaragua, the French debt, the proposed disarmament conference of the League, a second disarmament conference to be called by the United States, and the question of American participation in the World Court. And if anyone examines these comments from the White House, he cannot fail to be impressed with their directness and their lucidity.

President, Secretary of State and Senator Borah

It is clear that the President knows his subject, and that he knows his own mind.

One other thing is certain, and that is the spirit which seems to prevail in every statement. The President ardently wishes to allay suspicion, to promote international goodwill, and to re-establish the moral position of the United States. Those who never hear about American affairs except when they are asked to pay their debts, will doubtless receive this observation with a smile. But there are external interests of the United States other than debt-collecting—and the observation is true.

1. Ever since the days when Congress passed the Japanese Exclusion Act, the Administration has tried to assuage its effect. Thus, when the new ambassador from Tokio to Washington was appointed, Mr. Hughes, by the President's direction, departed from customary diplomatic procedure, and sent him a message of welcome. Later, arrangements were completed for an exchange of language officers between the American and Japanese armies.

2. On January 9, Secretary Wilbur appeared before a committee of Congress to discuss the Naval Appropriations Bill with them. He gave the impression that he personally would favor steps to bring the Navy up to the highest point of efficiency allowed by the Washington Disarmament Treaty; but that the President's program of economy stood in the way. Within a few hours the President had repudiated this view. He let it be known that his opposition to the elevation of guns on American battleships was based, not upon grounds of economy, but upon the simple fact that he stood for disarmament, and that the proposed changes, while possibly within the letter of the Treaty, would be in violation of its spirit.

3. On January 20, Mr. Hughes delivered a speech by radio on relations between the United States and Latin-America. He drew attention to the fact that American marines had recently been withdrawn from Santo Domingo.

President, Secretary of State and Senator Borah

Plans had been made to recall the handful of marines from Nicaragua at the end of the month ; but the newly-elected President asked that they remain. This request, said Mr. Hughes, had been granted, "but with the distinct understanding . . . that we shall withdraw before next September." "In Haiti we are only waiting to see a reasonable promise of internal peace and stability to effect our withdrawal." "We harbor no thought of aggression upon any one. Instead of encouraging the exploitation of other peoples, we are constantly, by word and deed, diminishing the opportunities for it and throwing the weight of governmental influence against it." He might have added that these steps marked a reversal of recent American policy in the Caribbean, and would probably work a beneficial change in the attitude of Latin-Americans toward the United States.

4. With regard to the Isle of Pines, a quotation from the *New York Times* will tell the story :

Washington, Jan. 20. While the Senate continued in open session to-day its discussion of the treaty with Cuba giving that Government undisputed title to the Isle of Pines, it was made known at the White House that President Coolidge hoped that the treaty would be ratified. . . .

The President holds, it was said, that there should be no dispute as to Cuba's right to the island. For this reason he sees no ground now for failure to ratify the treaty, and believes that failure to do so will only be seized upon by anti-American agitators in Latin-American countries as further fuel with which to feed the charges of "Yankee Imperialism" aired from time to time. He does not desire to see charges of "land grabbing" laid at the door of this Government, and is anxious to avoid any action which would lend any justification for such charges.

5. At the very end of the Naval Appropriations Bill is an amendment which authorised the President to invite other Governments to a further conference "which shall be charged with the duty of formulating and entering into a general international agreement by which armaments for war, either upon land or sea, shall be effectually reduced

President, Secretary of State and Senator Borah
and limited." This is, in effect, an enabling Bill: for the President has already said that he hopes to call such a conference when the time is ripe, that the time is not ripe yet, and that he will, in the meantime, await the possibility of definite action by the League on this question. It will be remembered that in October, during the campaign, Mr. Coolidge expressed his interest in such a possibility, and gave assurances that any invitation to attend a League conference would be sympathetically considered.

6. So far as the League itself is concerned, the President still maintains the opinion that the question of American membership is closed. On the other hand, Washington and Geneva are now working together without subterfuge or embarrassment. A noticeably better spirit prevails. And when, after that most regrettable incident within the Opium Commission, the American delegate agreed that his country should join with Germany and members of the Council of the League in the appointment of a Central Control Board,* the news was received without a quiver. "Opium Plan Links America to League," said the headlines; but the prospect, it seems, does not frighten Mr. Coolidge.

7. On the other hand, the President is as anxious to join the Permanent Court of International Justice as he is to stay out of the League. His position is clear, and it has already been referred to in this article. There is no need to dwell upon it; but it is appropriate, in considering the spirit which dominates Mr. Coolidge's foreign policy, to quote his words. He was advocating the Court before a conference of women who represented influential national societies interested in the cause of peace. "The interdependence of peoples and nations," he said, "becomes more marked every year. None can stand alone. None dares court isolation. None may

* Since this article was written the American delegates have withdrawn from the Opium Conference at Geneva.

President, Secretary of State and Senator Borah risk the ill opinion of civilisation." In view of what has gone before, it is submitted that these are not empty words.

"But I notice," says a man with a cynical smile, "that you haven't referred to the debts. Some people, you know, have them rather vividly in mind when there's any talk about American foreign policy." It is the business of an article like this to make American affairs and the American point of view understood abroad. For the past six years able and fair-minded men on both sides of the Atlantic have tried to make their convictions clear to one another. Yet the debts are still full of evil and rancour and misunderstanding. Unofficial comment is worse than useless. One can only express a hope that the spirit which appears to animate President Coolidge in other matters will guide him and his successors here.

IV

SENATOR LODGE died last November, and William E. Borah took his place as Chairman of the Foreign Relations Committee. He may keep that office, if he likes, so long as he remains in the Senate. Unless something unforeseen happens, he will outlast President Coolidge, just as he will outlast Hughes, and Kellogg and Charles B. Warren, if the rumor that Warren is to succeed Kellogg proves to be correct.

One gathers that his official relations with Hughes were not of the happiest sort. For years he had shown himself hostile to the Department of State. He had assailed its policy toward Latin-American countries, in season and out of season, ever since the days of President Taft. He fought against the League of Nations as an irreconcilable, and he fights against it still. But, in the eyes of Mr. Hughes, his most egregious sin must have been his per-

President, Secretary of State and Senator Borah
sistent efforts toward the recognition of Soviet Russia. These divergencies made it difficult for Hughes and Borah to work together, and they are likely to develop again when Mr. Kellogg becomes Secretary of State.

If there is a key to better relations between the executive branch of the government and the Senate, the President himself holds it. Borah is a painstaking student of foreign problems, a sincere man, and a courageous fighter. For these qualities Mr. Coolidge admires him, and says so openly. Indeed, the Senator from Idaho might have been Vice-President to-day in place of General Dawes, if he had yielded to Coolidge's overtures at the time of the Republican Convention. But he preferred to wait instead for the office which came to him by the "seniority rule" through the death of Senator Lodge. Now, it remains to be seen whether he can discharge his important duties with a sense of his responsibility, or whether all these years of brilliant vigorous opposition have unfitted him for constructive leadership.

The President will go far to meet the views of the man he so genuinely admires. He gave an earnest of this intention in his Inaugural Address when he advocated Senator Borah's reservation to the World Court proposal—that the United States "shall not be bound by advisory opinions which may be rendered by the Court upon questions which we have not voluntarily submitted for its judgment." And the Senator likewise gave ground a few days ago, when out of deference to the President's wishes, he abandoned his project for an international economic conference.

It must be said frankly, however, that the lines of close co-operation between them are not yet clear. When the news of the Paris agreement reached Washington, and the European interpretations of America's signature were made public, Borah raised his nose to the familiar scent, howled, and joined the pack. For he is, in spirit, still an irreconcilable. When the President makes a plea,

President, Secretary of State and Senator Borah on practical grounds, for the World Court, Borah regards this as a concession to expediency. For him, nothing short of the "outlawry of war" and the codification of international law will really do. For he is, at heart, an idealist. And when the President recommends the ratification of the Isle of Pines Treaty, offering this slight contribution to better relations with the Latin-American States, Borah goes before the Senate—forgetting the many battles he himself has waged for the same general end—and opposes the Treaty with all his eloquence. For he is, by profession, still a Senator!

These are mere straws. They may mean something or they may mean nothing. But they are astir at the storm-center of American political life. They are agitated by winds which have blown down from the Capitol to the White House for generations. If the winds die down; the foreign policy of the Administration can proceed under fine skies. If they freshen, it is ominous. For there is a tragedy ahead when two inflexible men dispute with each other concerning the right thing, and the way to get it done.

The United States of America,
January 31, 1925.

IRELAND AS IT IS

This article is from the same Irish pen as the previous accounts of the situation in Ireland which have appeared in THE ROUND TABLE under this title.—EDITOR.

FROM the date of the Treaty until the present time there has always been a definite issue in Ireland ; one problem on which all minds were centred, about which all classes were concerned. At one time it was order against disorder, law against anarchy : at another a Republic against a Free State. A writer, then, who wished to draw a faithful picture of the country had but to depict the fundamental issue and his sketch was complete. To-day the situation is much more complex, and not one but half a dozen questions, each of paramount importance, perturb the public mind and convulse the political and social atmosphere. In the days of the single problem the task of government was comparatively simple. To suppress disorder and the threat of civil war, courage was the essential attribute, and the Government possessing that had the support, or at least the goodwill, of the bulk of the community. When, however, the physical danger is past, and the ordinary citizen begins to think and ask questions about taxation, trade, cost of living, railway rates, maintenance of roads and similar topics the task of government is very different, and many more qualities than courage are required to satisfy the electors. I will endeavour to outline some of the problems which now

Ireland As It Is

confront the Free State, and if in the telling of them I interject my own views as to their correct solution, I must claim forgiveness as being an Irishman who longs to see his country peaceful and prosperous, and who cares little what person or party is in power so be it the State survive.

Undoubtedly the most pressing problem is economics. Some people call it Stagnation of Trade, others High Taxation, others Decreased Production. In some form or other it is on every tongue and the catch phrase in Dublin at present is "The Free State is not an economic proposition." That sounds learned and pleases the speaker; his audience is too supine to challenge or criticise it. The average Irishman is not given to careful analysis, and likes to have his economics and his politics served up to him in catch phrases rather than by reasoned argument.

Yet the problem must be faced. There is undoubtedly a great trade depression. Agriculture is depressed as it has not been for thirty years. Two wet seasons, high cost of labour, machinery and food, coupled with heavy transit charges, have turned the farmer's profit into a loss. Carrying companies both on water and land are in some cases working at a heavy loss, and in others are barely paying their working expenses. Wholesale houses complain that their trade is gone, and their travellers without orders. The few manufacturers which exist find their overhead charges so heavy that they cannot compete with their British and foreign rivals. Talking will not cure this, and the first thing the country requires is a definite economic policy pushed forward with the same vigour which defeated the Irregulars in 1922-1923.

What is that policy to be? Is the country to be saved by protective tariffs? Is trade to be fostered by increased taxation direct or indirect? My view is that the answer is an emphatic negative. Consider the situation. Ireland is essentially an agricultural country. Her cattle, her butter, her eggs are her chief exports. Everything which increases cost of production to the farmer tends to diminish

Ireland As It Is

his productive energy. If the labourer has to pay more for food, clothes, and boots, his wages cannot be reduced. If the railway worker cannot submit to decreased wages, the transit charges cannot come down. The aim of the Government must be to increase production, and production cannot be increased until taxation is reduced, and the cost of production diminished. It is an object lesson to see Danish butter sold in Dublin shops cheaper than Irish.

Again, if the Government is anxious to see established industries flourishing, and new industries started, they must remember that capital is necessary and the reward of capital—viz., profit. As long as income tax is higher here than in England the flow of capital will be away from Ireland and not towards it. Protective tariffs will not even produce a spurious trade if the average investor believes that he will get a greater and safer return abroad. Balancing a budget is only a mathematical calculation if you impose taxes without regard to their ultimate effect on a country's wealth. The theory that the budget must balance each year, if pushed to its extremity in all circumstances, may well spell national ruin.

The Government's economic policy should be to increase production by decreasing taxation, by reducing the cost of living, by, if necessary, subsidising carrying companies; income tax should equal, or be below the English income tax. Super-tax, which at best only produces something like £300,000, should be abolished and along with it the Corporation Tax.

No attempt has been made to do any of these things. Last year an import duty on boots was imposed, with what result? No new factory has been started; a few hundred additional hands have been employed in the few boot factories there are in Ireland, but every man, woman and child in the country has paid 3s. or 4s. a pair more for their boots. The farmer, the artisan, and the labourer are so much worse off than before. The cost of production

Ireland As It Is

of our staple exports is increased and we are in a worse position to compete with our overseas rivals. It is not a question of free trade and protection. It is not a question of fostering a nascent industry, because there is not the capital to start boot factories in Ireland. If import duties such as these are imposed with the object of increased revenue, then they increase revenue only to destroy wealth. If they are imposed with the hope of making Ireland a manufacturing country, then the time is not ripe for them, for the high direct taxation frightens capital and inevitably destroys the expected result. The effect of this trade depression on the settled government of the country is disastrous. Discontent is spreading and, unfortunately, the Free State has been such a short time in being that a change of Government has not the meaning here that it has in other countries. A change of Government now would almost certainly mean a change of constitution—the abolition of the Free State and setting up of some form of Republic. The mere fact that the personnel of such a Government are equally barren in their economic policy will, I fear, not weigh much with the electors. The Republicans are so immersed in the desire to climb beyond the summit of independence that they have no time to think of living. The present Government, by its minute exactation of the last penny of income and other taxes from the pockets of impoverished and despondent taxpayers, is becoming unpopular. The Republican party is turning this to advantage, and by fomenting the discontent and by extravagant promises of what they could do were they in power, hope to wear down the Government and force a General Election.

They are assisted in this by the extraordinary apathy of the citizens, whom one would naturally expect to be most anxious to assist in the preservation of settled government. This was illustrated at the last bye-elections. About 40 per cent. of the electors registered their votes. Those abstaining were the more prosperous of the elec-

Ireland As It Is

torate—the very persons who will be injured if another revolution takes place. I have asked many of these people why they did not vote. "Oh, I'm sick of this Government; they have no policy," or "I'm tired of pay, pay, pay, all the time." With variations these are the universal answers. Ask them, will they be better off under a Republic, and they at once admit that they will not, and freely state they will be ruined; yet they will run the risk of that ruin rather than support a Government that does not command their confidence. The problem of awakening the electorate is linked up with the economic one and is almost as serious, for it may mean the success of the Republicans for an entirely false reason. What we want and want badly is a change of parties or rather a change of political issues. Up to now elections have always been fought on the national issue. "Let Ireland be free." "A Nation once again." Those are the slogans of the past. We must learn that freedom of itself will not fill our mouths or our pockets. That when freedom is attained much remains to be done to make a country prosperous. That the task of successfully governing a republic or a monarchy is not so very different after all. We have not learned this yet, but I think we are learning it. In the very despondency and criticism of the citizens I see a gleam of hope. They realise now that the politicians who for generations dinned into their ears that Home Rule and Utopia were synonymous terms were—politicians. The country is suffering from the shock of disillusionment. The non-realisation of the hopes or rather of the teachings of half a century have not unnaturally produced a feeling which is a mixture of rage and despair. The danger point is that instead of settling down to improve their position under the existing constitution the country may be foolish enough to be again misled into the belief that a change of constitution can work a miracle, and produce some sort of philosopher's stone to transmute poverty to riches. It is here that the business and professional men might help

Ireland As It Is

and do not. Instead of standing by, criticising, they should form a party which, while supporting the existing constitution, could educate the Government and the people into an understanding of the real problems of government. I believe such a party would command enormous support, and, given really good candidates, would have a striking success at the polls. The present Government is in a most unenviable position. It is burdened with a debt not of its own making. It has had much of its material wealth destroyed by the very party which now opposes it. It has to impose taxation to pay for the destruction caused by the Republicans, and the country, forgetting entirely the originators of the mischief, blame the Government.

The Government has still the Republicans upon its flank, and in my opinion plays down to them too much. With one notable exception, I have not read in the speech of any Minister a disavowal of the farcical issue on which elections are at present being fought, or a statement of the real issues which should be before the electors. There is a universal tendency to argue aimlessly as to whether or not we are really free, and pursue the Republicans into the maze of their idealism. We must abandon the vapourings of Nationalism and get down to work. The citizens in word and act must construct and not destroy. They must abandon the idea that politics only mean degrees of separation from England, and learn that the Government to be supported is the one whose policy makes for prosperity and tranquillity. They must learn to digest cold, unpalatable truths without losing their temper. Our politicians still flatter us. They are afraid to say anything which may annoy us. The days of extravagant promises should be ended; the unfortunate necessity for work should be emphasised.

It is very disheartening to those of the Irish, who are striving to bring about better conditions and more settled government, to find that the Free State is continuously

Ireland As It Is

and malevolently attacked by a large part of the English Press. What makes it worse is that the attacks are almost always launched on wholly incorrect facts. Some days ago an Irishman, a member of a defunct Irish party, whose name when he was in politics was anathema to the Conservative Press of England, chose to state in a letter to the Press that the Free State was insolvent, and that Irish Land Purchase Annuities, amounting as they do to about £3,000,000 a year, were not being paid to the British Government. Two utterly false statements. A daily paper, possibly the most widely read in England, without apparently the slightest attempt to ascertain the truth of the allegations, published a leading article on the subject condemning the Free State and parading its utter insolvency. Every day I see comments on Irish affairs in English papers which I know are false and misleading. I am curious to know why they are introduced. In what way will the political or economic failure of the Free State benefit England, or the adherents of England who live in Ireland? These continued attacks undoubtedly injure the credit of this country and make possible the very situation which I would have thought England would have been most anxious to avoid.

These comments have another bad effect. They fan the bitterness which some sections in Northern Ireland endeavour to perpetuate towards the South. I am glad to say that the antagonistic feeling towards Northern Ireland which did exist at the time of the Belfast boycott is rapidly dying out in the South. The average citizen here takes the view that when we have settled our own affairs it will be time enough to concern ourselves about our neighbours, and I can only describe as fantastic the descriptions which have appeared recently in the Press of the excitement the Boundary question aroused in the Free State. I have not heard the Boundary question mentioned for months. It is also pleasant to be able to record that bigotry, and particularly religious bigotry, is prac-

Ireland As It Is

tically non-existent here at present. In this I think I will be supported by practically all the Protestant minority. I am always extremely amused when I notice the agonies of mind which the editors of the Belfast Unionist papers seem to be periodically suffering over that minority. The political murders, the threats against the lives of Ministers, the destruction of property have also entirely ceased. There is undoubtedly much more crime than there was during the period immediately prior to 1914. There are murders, bank robberies, assaults and many minor offences ; but what country has not more crime than before the European war ? The position here is aggravated by the fact that for years the rule of the gun was absolute, and disrespect of law, both moral and civil, was universal. It speaks volumes for the Government that it has reduced its criminal calendar to the proportions which it has. There is in the new police force the nucleus of an extremely efficient organisation, and when one considers that they are unarmed, one realises the difficulty and danger of their task. It is also gratifying to note that the ordinary inhabitants are supporting the police in a way they never did before. The Irish tendency to side with the criminal against the policeman is on the wane and undoubtedly a better civic spirit is abroad. One way in which this is evidenced is in the manner in which witnesses and juries perform their duties. In short, the feeling is growing that the people are the State and that a crime against the State is a crime against each and every inhabitant of the State. An eloquent counsel can no longer plead that : "The Crown must prove its case." The myth that the machinery of the law was operated from England to commit innocent Irishmen to prison is exploded for all time.

There is a great opportunity at present to revive the tourist traffic in Ireland. Visitors are not unnaturally somewhat timorous about visiting a country where for years past disturbances were rife, and traffic by road and rail was dislocated. Could it be made widely known that

Ireland As It Is

these disturbances are now at an end, I believe we should see our beauty spots crowded with tourists as of old. That they would be welcomed is assured, that their visit would benefit the country is certain. I am surprised that the Government has not started an intensive campaign with this object in view.

There are many points on which the Government can be criticised, and I think deservedly criticised; it is refreshing to find at least one thing about which one may sincerely congratulate them—their agricultural policy. I do not refer to the Land Purchase question, involving as it does all the debatable ground of the division of large holdings, the settlement of landless men, the migration of tenants, and the abolition of dual interests in land. I refer solely to the efforts which are being made to improve the quality and quantity of our agricultural produce and exports. Acts of Parliament have already been passed dealing with the proper grading of eggs and butter, and in the last few days a most important live stock Bill has been put through the Senate and will shortly receive the assent of the Governor-General. In a previous article,* I expressed the hope that this would be done, and I am glad to say it is now an accomplished fact. The farmer, if these laws are rigorously enforced, will be compelled, in spite of himself, to give up his haphazard methods and become more or less scientific in the manufacture and marketing of his products. This is all to the good and if it were only accompanied by such a reduction of taxation as would bring the farmer's overhead charges to a reasonable figure we should, I believe, soon see a boom in Irish agriculture, instead of a depression. I feel that this taxation question is so important that I cannot help reiterating that without some sound, settled policy we cannot succeed; and the Government is only destroying its own constructive work when it keeps direct and indirect taxation at its present high

* *The ROUND TABLE*, No. 55, June 1924, p. 530.

Ireland As It Is

level. It would be infinitely preferable to see the Government raising another loan, either externally or internally, and spreading the present exceptional liabilities over the future, than paralysing the citizens by a burden of taxation which they cannot pay, and thereby endangering the peace, indeed the very existence, of the country.

It would be unfair and untrue to conclude any sketch of the condition of things in Ireland at present without referring to the enormous improvement that has taken place in what I may call the ordinary life of the country. It is no longer considered an act of courage to be abroad after dark. No longer is our sleep disturbed by the rattle of rifles and machine-guns. Entertainments of all kinds are held as of old. Sport has taken its old place in the national life. Last year's Horse Show was one of the most successful ever held by the historic Dublin Society. Belfast, Dublin and Cork play together in our international teams, and in the fellowship engendered on the playing fields lies one of the chief hopes for ultimate goodwill between all parts of the country.

May I, as a last word, appeal to the citizens of countries outside Ireland for a more sympathetic consideration of our difficulties and perplexities. We cannot yet expect the world to forget the savagery of past years. Is it too soon to ask it to forgive? If it is, may we not at least ask for an open mind towards those who are struggling against great odds to uplift their country again to prosperity and repute?

INDIA: THE POLITICAL CHAOS

INDIAN politics presents at the moment an extraordinary spectacle of confusion. On every side there are warring factions, who seem to possess but one thing in common—a sense of discouragement. The compact nationalist opposition to the British administration, which stood so strongly only three years ago, has now completely dissolved. Liberals are at loggerheads with Swarajists ; Co-operators with Non-co-operators ; Conservatives with Progressives. Throughout the whole intricate fabric there runs the sinister strand of Hindu-Moslem bitterness. At first sight the observer might well despair of India's political future. How can a country like this, it may well be asked, attain the barest rudiments of the self-governing spirit ? Yet a more penetrating glance reveals the fact that the present situation is purely the harvest of certain seed sown within the last few years. The resulting crop is thoroughly pernicious and must be eradicated as quickly as possible. But the soil remains, and possesses the power to bring forth good as well as evil.

I. THE PAST

The Council Boycott

THE confusion into which the Indian national movement has fallen is a direct consequence of the foolish campaign of non-co-operation. The present writer has no desire to discuss the ethics of passive resistance, or the moral content of Mr. Gandhi's creed as expounded by himself. It should,

India : The Political Chaos

however, have been apparent to any tyro that politically Mr. Gandhi's gospel was suicidal ; for four wasted years the Indian National Congress has been side-tracked upon a sterile programme. Not only has this body condemned itself to futility, but in addition it has alienated some of the soberest and most far-sighted men in the country. It is indeed impossible to escape the conclusion that the Indian national movement has deliberately thrown away a great opportunity by the manner in which it has failed to respond to the Montagu-Chelmsford Reforms. That grave provocation was afforded to educated India by the mishandling of affairs in the Punjab, there is no denying. But what had these affairs to do with the new constitution, which was not at that time inaugurated ? No wonder that Mr. Montagu and the best friends of India in England threw up their hands in despair at the wave of insanity which swept over the country. The result of Mr. Gandhi's boycott was to sever the new Legislatures from the bulk of Indian political opinion. The Liberal party perceptibly advanced within the short space of three years towards the satisfaction of many national aspirations, such as the Indianisation of the Services and of the Army ; the repeal of repressive laws ; the nationalisation of railways ; the acquisition for all practical purposes of fiscal autonomy ; the virtual abolition of racial distinctions in criminal trials. What might not have been accomplished if Indian Nationalists had set themselves soberly and in right earnest to utilise the considerable responsibilities and all pervading influence which the new constitution placed in their hands ? As it was, only with the incarceration of Mr. Gandhi did returning sanity dawn upon the consciousness of one section in the Congress party. The "Changers" fought for the reversal of the Council boycott. Defeated in 1922, they shook their opponents in 1923, obtaining permission to pursue the course they thought best. In 1924, as we shall see, they triumphed completely, broke the non-co-operation movement, and covered Mr. Gandhi with public shame.

The Past

The Inflammation of Sectarian Passion

Mr. Gandhi was guilty of another cardinal blunder, the punishment of which came even more quickly than that which followed his boycott of the Councils. He identified himself with the Khilafat movement, making the satisfaction of Moslem susceptibilities a prominent plank in his platform. His followers repeated with him "Swaraj is Khilafat ; and Khilafat is Swaraj." The temptation was, of course, great ; for without a religious watchword, it would have been impossible so far to overcome the traditional Moslem suspicion of democratic institutions—where these institutions entailed a Hindu majority—as to unite both communities against Government. But Mr. Gandhi failed to perceive that by building one side of his house upon a foundation over which neither he nor the Government could exercise control, he was placing his structure at the mercy of events purely external to India. The Angora Government settled the whole question. They vindicated the Turkish claim to national existence ; they came to terms with the Allies ; they abolished the Khilafat altogether. There was nothing to be said. Since the Indian Moslems had rallied to Mr. Gandhi only because they believed he could help them, they deserted him when circumstances made that help unnecessary. Inevitably, a powerful reaction quickly set in. Turning their eyes from foreign to domestic questions, the Indian Mahomedans became alarmed. They were in a minority. How would they fare when Swaraj came ? They could not compete in education, in wealth or in vested interests with their rivals. To the orthodox Hindu they were as "untouchable" as an Englishman. Their communal anxiety increased, taking the form of claims which by turn exasperated and alarmed the Hindus. The Moslems were adamant. They would not advance one step until their future was secured. They

India : The Political Chaos

held their hand from all "national" work, and devoted their entire energies to consolidating such power and influence as they could control. Communal feeling grew apace ; for Mr. Gandhi had for long inculcated the doctrine that a man's religion is all that matters. Carried away by the chimera of political opportunism, he had so far turned his back upon India's past as to imagine that he could for ever direct the dangerous fervour of Brahmin and Mullah in unison against a British administration. This fervour, accordingly, he sedulously inflamed ; for which crime against sanity his country now dearly pays. Further, in deliberately attacking the British Government, he depressed the only authority capable of holding the balance between the two communities. He did his utmost to weaken the secular arm, which he accused of being "Satanic" because, forsooth, it was concerned with *real-politik*. All this might have been innocuous in a Western country, if it be conceded that a programme so divorced from reason could have survived the ridicule to which it would have been subjected. But in India, where communalism is strong, and where ties of creed, consanguinity, and caste ever threaten, at the best of times, to override the faint call of patriotism and civic consciousness, wise men are concerned rather to moderate than to foster sectional feeling, of which there is, in truth, more than a sufficiency. Mr. Gandhi, however, oblivious to the counsel of those greater than he, persuaded his followers to exalt God and to despise Cæsar. But while in India Cæsar is one, God is worshipped in many forms, whose followers only dwell in amity through Cæsar's constraint. When secular authority was execrated and despised, what could men fall back upon but the dictates of their own militant creeds ? Accordingly, into the ranks of those who had once been his followers Mr. Gandhi's "religion" brought, not peace, but a sword. There is no need to repeat the lamentable tale of riots, lootings, arson, and sacrifice which made the last few months a period of humiliation for all who are working for Indian self-government.

The Present

II. THE PRESENT

THESE two evil fruits of non-co-operation, its boycott of the Councils and its loosening of those ties by which alone communal discord is restrained, constitute the dominant feature of the Indian political situation to-day.

The Burial of Non-co-operation

When its principal apostle was removed from participation in active politics the inherent absurdities of the non-co-operation movement quickly reduced it to a sorry plight. On his release, Mr. Gandhi tried to revive the movement, against the determined opposition of his rebellious "followers," the Swarajists, who had already entered the Councils. Throughout 1924 he fought them, but was signally defeated. In July he attempted to eliminate them from the Congress organisation by reiterating the "triple boycott" and inventing his hand-spinning qualification for office. He was entirely unsuccessful. In his own words, the Swarajists "defeated and humbled" him. His political leadership was discredited; but his personal conviction would not permit him to retire into the background. In September, he suggested that the Swaraj party might have either "Gandhi without the Congress, or the Congress without Gandhi"; in other words, that the Congress, to preserve unity, might confine itself to non-political activities such as the encouragement of hand-spinning, the removal of untouchability, and the fostering of Hindu-Moslem unity. The Swarajists were to be permitted to work in the political sphere, with which the Congress would be no longer concerned. Failing the acceptance of this plan, he stated that he would leave the Congress to the Swarajists, and start a separate organisation of his own for the accomplishment of his programme.

India : The Political Chaos

From the point of view of the Swarajist leaders the situation looked ominous. Mr. Gandhi is always an incalculable factor ; and they could not afford to allow him a freedom which might at any moment be turned against themselves. Their own position at this moment was none too secure. In Bengal and in the Central Provinces they had succeeded in bringing Ministerial government to an end. But in the former Presidency their majority was extremely narrow, and constantly threatened by the tendency of the Mahomedan members to constitute themselves into a communal block. Elsewhere the Swaraj party was in such a minority in the local legislatures as hardly to count. In Bombay, in Madras, in the United Provinces, in Bihar and in the Punjab the reformed constitution was working, if not smoothly, at least without break-down ; and it was wholly beyond the power of the Swarajists to disturb it. Their achievements in the central Legislature were very small. They had indulged in strong speeches ; they had carried high-sounding resolutions against Government ; but when it became a question of practical results, such as steel protection and reform in railway finance, they had been obliged to adopt those Liberal tactics of co-operation with the executive which they had so fervently denounced. Their party discipline was still good ; but it was apparent to observers that they were steadily losing ground among the electorate. They had not succeeded in breaking the constitution ; and in those provinces where their obstruction was effective, the consequences to the electorate were unpalatable. In short, until the end of October 1924, the position of the party was distinctly unfortunate and their prospects the reverse of bright.

But at this juncture fortune suddenly bestowed upon them a priceless advantage. Lord Reading published on October 25 Ordinance No. 1 of 1924, which at once opened for a moment the political situation.

The recrudescence of anarchy in Bengal had for some

The Present

months been causing the authorities, by their own confession, acute anxiety. The revolutionary conspiracy, which had existed during the years 1912 to 1917, had resisted the utmost pressure of the ordinary procedures of law; and had only succumbed to the employment of Regulation III. of 1818, and the Defence of India Act. After the Royal Proclamation of 1919 most of the leaders confined under this enactment were released. Many, but unfortunately not all, forsook their connection with revolutionary crime. A certain proportion still retained their faith in the efficacy of violence and assassination; revived their organisation, and profited by the political unrest of the period between 1920 and 1922 to recruit fresh followers. For some time they were hampered by the doctrines of non-violence, which the non-co-operation campaign rendered fashionable; but with the obvious failure of Mr. Gandhi's movement to achieve the aims so confidently promised, the revolutionaries were able to revert to violent methods. Arms and ammunition of a kind which cannot lawfully be purchased in India were smuggled in from abroad. A new and dangerous type of bomb was manufactured and projects of assassination were matured. In 1923 the revolutionary party perpetrated a number of outrages. Suspects who were brought before the courts in what is known as the Alipur Conspiracy Case were acquitted. In 1924 the incidents became more serious, and only the most significant events can be recounted. In January 1924, Mr. Day was murdered in mistake for the Commissioner of Police. In March an elaborate and well-equipped bomb factory was discovered. In July "Red Bengal" leaflets of a character all too familiar to those who remember the revolutionary conspiracy of 1912-17 were widely diffused. In August a serious bomb outrage was committed; and the suspects, seized amidst a crowd of witnesses, were acquitted by the Court. This activity was accompanied by a widespread Press campaign in the Bengal newspapers, of which the leading feature

India : The Political Chaos

was the eulogy of old revolutionaries. A particularly serious feature of the revolutionary recrudescence was the intimate touch maintained between the revolutionaries and certain members of the Swaraj party. It was rumoured that the anarchists were obtaining funds from sources other than that of armed robbery ; and the administration of the great and wealthy Calcutta Municipal Corporation by the Swaraj party did not escape the censure of critics. As may well be imagined, a Viceroy of Lord Reading's temperament was most reluctant to invoke emergency powers until he was fully persuaded that all other means for dealing with the emergency had been exhausted. But having satisfied himself that no other course was open to him, he issued an Ordinance establishing a summary procedure of arrest, and of trial before special Commissioners, of persons whom the local Government was satisfied belonged to associations whose object was revolutionary crime. In so doing, he reiterated his belief in political advance and his determination to see that the progress of the country could not be retarded by threats of violence.

It cannot be too clearly borne in mind that among the persons arrested as a result of this Ordinance were found certain members of the Swaraj party, including the Executive Officer of the Calcutta Corporation. The Swarajists naturally seized the golden opportunity presented to them. They claimed that the Ordinance was directed against themselves, and was aimed at the suppression of legitimate constitutional activity. The absurdity of this claim is readily apparent to all impartial persons. As Mr. Baldwin has said in his Guildhall speech of November 10 :

It is not directed nor, by its terms, can it be employed against any persons or parties who pursue constitutional aims by constitutional means. It is directed solely against certain specified crimes all of which, without exception, are crimes of violence.

But it is little wonder that the Swaraj party, in view

The Present

of their recent loss of ground, should have embraced the opportunity afforded by the arrest of certain of their own members, and should have called on other political parties to rally to the support of political liberty. Naturally, the Ordinance caused a general sensation. Educated Indian opinion, which is so largely influenced by English legal procedure, has an ineradicable dislike of extraordinary powers. The Ordinance was pretty generally condemned ; although there was a disposition to admit the seriousness of the situation which had evoked it. There were somewhat naïve complaints on the part of certain sections of the Press that the action of Government, by provoking an issue upon which all parties would unite against them, had provided the Swarajists with an undeserved advantage. Protest meetings were called in considerable numbers, particularly in Bengal, and political leaders of different shades of opinion denounced the policy of "repression." The Indian-edited Press thundered vehemently. But despite all efforts to raise the whirlwind, India remained fundamentally unmoved. There could be no better proof of the nervous exhaustion which has succeeded the non-co-operation frenzy.

On the crest of the wave which revived their threatened credit, the Swarajists were able to defeat Mr. Gandhi's last effort, and to bear him away captive. Early in November an arrangement was concluded by which non-co-operation was to be suspended except for the boycott of foreign cloth. More important still, the Swaraj party was authorised to carry on work in the Legislatures on behalf of the Congress and as an integral part of the Congress organisation. As a sop to Mr. Gandhi, the Congress franchise was altered to the contribution of two thousand yards of yarn every month ; but the clause was deprived of all reality by the provision that those who could not, or would not, spin, might purchase the necessary amount. Non-co-operation was thus buried as well as dead. Mr. Gandhi surrendered entirely to the Swarajists. His

India : The Political Chaos

conduct came as a supreme shock to his greatest admirers ; for on the plea of uniting all parties against the Government, and with the disingenuous assertion that the Ordinance was directed against the Swaraj party, he acquiesced in a policy which he could not endorse ; and abandoned his most cherished convictions rather than retire from the political arena. So striking was his fall that many persons did not hesitate openly to declare that he had become a mere puppet upon whose vanity the Swarajists could play to make him dance at their bidding.

In an endeavour further to exploit this remarkable success, the Swarajists determined to summon an All-Party-Leaders' conference. It is not hard to gather their aims. Such a conference would provide an excellent advertisement of the triumph which had won for them both the Congress and Mr. Gandhi. They hoped further to secure support for themselves from the other Indian parties. There was even a prospect that they might assume the leadership of a united opposition to Government. On the other hand, the Liberals and Independents regarded the project of the conference with a somewhat different eye. They cordially disliked the Ordinance ; although Mrs. Besant, with her habitual courage, pronounced it a regrettable necessity. They were struck by the confusion which had overtaken the Nationalist movement, and they hoped that the abandonment of non-co-operation entailed the conversion of the Congress and the Swarajists to constitutional work for Dominion Home Rule. The Liberals, in particular, have never been happy outside the Congress, which, throughout its history, has, with the exception of the last few years, stood broadly as an expression of their own aspirations. They sincerely hoped that it might be possible for them to rejoin. The adherents of Mrs. Besant's National Home Rule League desired to unite Independents of all shades of political opinion in support of a certain minimum demand ; and hoped to secure the endorsement of the conference for

The Present

the scheme which Mrs. Besant, with a praiseworthy sense of the practical, has been for some time elaborating as the basis of the next stage of constitutional reform. Finally, all parties were aware of the dismal condition of communal relations, and they hoped that it might be possible to lay down some lines of accord between Hindus and Mahomedans.

The All-Party-Leaders' Conference met in Bombay on November 21, and from the number of interests and sections represented, it may fairly be held to have deserved its name. On the other hand, it was found almost impossible to arrive at any real agreement. After much discussion a resolution disapproving the action of Government in promulgating the Ordinance was passed with certain dissentients. A large Committee—too large to be practical—was appointed to consider the best way of re-uniting all political parties in the Indian National Congress, and to prepare a scheme of Swaraj, including the solution of the Hindu-Moslem question. Further, the President of the Congress invited the various parties represented to hold their annual session at Belgaum at the same time as the Congress itself met. But of practical result there was little or nothing. There is reason to fear that the Conciliation Committee will be as still-born as the All-India Panchayat appointed by the Unity Conference in Delhi. Before these lines have appeared in print, the Committee will have held a meeting and the Moslem and the Hindu cases respectively will have been argued before it. But the present writer is not optimistic as to the result.

The only persons who gained by the Bombay Conference were the Swarajists. Mr. Gandhi's surrender to them became public property, and he himself underlined it by his statement in the All-India Congress Committee that he had lost power to command universal acceptance of his views, and was an unsafe guide for the "No-change" group. The climax was reached when he exclaimed

India : The Political Chaos

that he was not a lunatic ; he was a reasonable man. But he was losing ground gradually, and would have no hesitation in bending before Swarajists and Liberals ; and, if necessary, would bend before Englishmen also if they showed a change of heart. Further, the passage of the resolution condemning the Bengal Ordinance considerably strengthened the stand which the Swarajists were taking in the matter. When the Bengal Council met on January 7 to consider legislation rendered necessary by the limited duration of the Ordinance, the Swaraj party was successful, despite a most powerful speech by Lord Lytton, in defeating the Government proposals by 66 votes to 57. The project of a united Congress failed to materialise. The Liberals would not change their venue from Lucknow ; the Moslem League decided to meet as arranged in Bombay. A section of the non-Brahmin party, which has for some time been attracted by Congress ideals, did, it is true, hold its meeting at Belgaum. But the neglect which it encountered was an eloquent testimony to the wisdom of the Liberals.

The proceedings of the Congress were not remarkable. Mr. Gandhi's Presidential speech gave no clear lead to the Congress. His advocacy of a manual work qualification for political franchise ; and his offer of a fully guaranteed status to all Indian Chiefs excited considerable animadversion. Mrs. Besant, who had been encouraged by the abandonment of non-co-operation to hope for a programme of solid work, had rejoined the Congress and attended the Belgaum meeting. But she was disappointed, and her considered judgment may be gathered from the fact that she has since mooted a project for the establishment of a separate Congress upon the old traditional lines. The most important work accomplished was the formal adoption of the pact between Mr. Gandhi and the Swarajists, despite Mrs. Besant's appeal against conferring upon one single party a monopoly of Congress representation in the Council.

The Present

The Liberal meeting at Lucknow was more interesting. Dr. Paranjpye, the President, roundly condemned both the non-co-operation movement and the Swaraj party ; and outlined for the Liberal Federation a complete programme of work for the acquisition of responsible government upon Dominion lines. He asked for the early grant of responsible government in the provinces, and in the Government of India, with reservation of defence and foreign policy and the vesting of veto in the hands of the Viceroy. He proposed that a fixed sum should be allotted by statute to the Department of Defence, any additional expenditure to require the consent of the Legislature. He asked for the gradual placing of the Indian Army and Indian Services upon an Indian footing, with guarantees for the position of the present European incumbents. Foreign relations he desired to see transacted upon an Imperial basis, with Indian representation upon any body hereafter constituted from representatives of the Dominions. As his contribution towards the solution of Hindu-Moslem differences, he urged the institution of mixed electorates and the satisfaction of specialist claims for an initial period—after which they would lapse. The meeting passed resolutions pledging the Liberals to work for responsible government on Dominion lines ; stating that reunion with the Congress was only possible if that body stood for the acquisition of Dominion self-government by constitutional methods ; and attacking the compromise by which Swarajists, M.L.A.'s and M.L.C.'s were considered accredited spokesmen of the Congress in the Councils.

The failure of the All-Party Conference, while to some extent due to ineradicable differences in the aims and methods between Liberals and Swarajists, was very largely a consequence of the embittered relations between Hindus and Musulmans.

India : The Political Chaos

Hindu-Moslem Relations

We have already noticed the manner in which Mr. Gandhi's campaign has loosed the bonds by which communal differences are generally kept in check. A survey of the relations between Hindus and Musulmans throughout India is at the present moment extremely disquieting. The Unity Conference of Delhi, concerning which such hopes were expressed by the writer of the article in our December number,* has hitherto proved entirely abortive.

In Bombay and Madras communal feeling is relatively not serious ; although in Sind, where the Mahomedans are educationally backward, material for a dangerous situation exists. In the Central Provinces matters are somewhat worse ; and there have been serious riots within the last few months. In Bengal, Bihar and the United Provinces the situation is acute ; and in the Punjab it is most dangerous. Broadly speaking, we may say that in those provinces where the Hindu and the Moslem populations approach numerical equality, the rivalry and the bad blood are most conspicuous. This, of course, explains why in the Indian States, where as a rule either one party or the other has a prescriptive control of the administration, Hindu-Moslem riots are of such rare occurrence. The Punjab may be taken as the standing example. There is a Moslem majority in the province, which has practical control of the Legislative Council and dominates the structure of local self-government. The Moslems have used their power to increase their influence in many departments of the administration. They have further, by the so-called *Tanzim* movement, set up an active communal organisation to secure their interests in every department of life. The Hindu attitude ranges between anger and despair.

* *THE ROUND TABLE*, No. 57, December 1924, pp. 146-7.

The Present

In opposition to the Mahomedans, they pin their faith to the communal *Sangathan* movement. The recent Kohat riots, which resulted in the wholesale exodus of the Hindu population from that frontier town, have proved a fruitful source of contention. Government's finding, which practically amounts to laying the blame upon the reckless zeal of the Hindus, has gratified the Mahomedans immensely. The failure of the Congress leaders to do anything effective to help the sufferers has confirmed the Hindus in a realisation of their local impotence.

It might well seem that the bitterness of Hindu-Moslem relations, though serious enough, was primarily a matter of local concern, but this is far from being the case. It exercises a marked influence upon high politics. For example, in the Punjab, Hindu appreciation of the fact that under the Reforms they will be subjected to the perpetual rule of the Mahomedan majority, has resulted in a great revulsion of feeling against political activity. The Punjab Provincial Conference, which was held in December, aroused very little enthusiasm; for the majority of Hindus have begun to feel that their only hope lies in a strong communal organisation such as is fostered by the *Sangathan* movement. They, therefore, tend to look askance at the Congress leaders who slur over Hindu-Moslem differences and desire to unite all parties in an understanding which Hindus, in a province where a Mahomedan majority exists, cannot but regard as inimical to their own interests. An interesting consequence of this feeling has been the openly expressed desire on the part of the Hindu members of the Punjab Legislature to choose an Englishman as the first elected President of the Council. On the other hand, the Mahomedan community throughout India is as a whole suspicious of political advance, for it realises that in the majority of provinces the Hindus are in preponderance. It therefore displays a far greater anxiety to secure its own interests than to take part in the work which the political leaders are constantly urging it

India : The Political Chaos

to adopt. The recent Moslem deputations which waited upon Lord Reading in Bombay and in Calcutta are eloquent proof of the determination of the Indian Musulmans to advance no step until the interests of their community have been properly secured. Other significant indications of their attitude are provided by such incidents as the resolutions passed at the Moslem Conference recently held at Patna, where it was agreed that Mahomedan Members of Council who vote against Mahomedan Ministers should be asked to resign; and where the activities of the Swaraj party were whole-heartedly condemned. Further, at the meeting of the all-India Moslem League in Bombay the *Shuddhi* and *Sangathan* movements on the part of the Hindus were bitterly attacked, and it was asserted that the *Tanzim* movement was a justifiable reply to this aggression. In opposition to the Swarajists' programme of unity, the Moslem League resolved that it should not merge itself into the Congress. It also paid a tribute to the work of the Frontier officials—a fact of the utmost significance in view of the wholehearted condemnation visited by the Hindu Press upon the Kohat authorities. But there have been two recent events which, more than any other, reveal the gulf which at present separates Moslem from Hindu feeling. At the Khilafat conference at Belgaum, which, it must be emphasised, consisted principally of those Mahomedans who wholeheartedly believe in political advance on Congress lines, Dr. Kitchlew, in his Presidential speech, condemned the Hindu agitation in the Punjab as unjust and selfish. He applauded the attitude taken up by the Mahomedans in that locality as being justifiable; and he put forward claims on behalf of his community for representation on elected bodies and in the service cadres, which came as a bombshell to the Hindus who listened to him. Finally, the attitude of the Mahomedans as a whole towards the Bengal Ordinance has been singularly apathetic. As a community they are little concerned, for revolutionary

The Future

activity does not appeal to them. There has been a tendency to half-hearted condemnation, but it is obvious that this is mere lip-service and nothing more. It is the apathy of the Mahomedan community which, more than any other one factor, explains the comparative calmness with which the Bengal Ordinance has been received. There were all the materials for another agitation such as that which characterised the introduction of the "Rowlatt" Act; but all attempts to produce real excitement have hitherto proved abortive.

III. THE FUTURE

THE immediate future of Indian politics is not encouraging. The Swarajists are still the most powerful party in the country. But what will their programme be? Their recent triumph has set them no nearer to their goal. Their plan of wrecking the constitutional machinery from the inside has conspicuously failed. Bengal and the Central Provinces "carry on" quite comfortably without Ministers. Elsewhere, as we have seen, the Swarajists are in a minority and do not count. We may notice that new theories are tentatively being canvassed. It is suggested that the party might obstruct "from within the Cabinet." This entails the acceptance of office. What that will mean, all who are familiar with the present condition of Indian politics can well imagine. Non-co-operation will become co-operation; new Swarajists will be but old Liberals writ large. The tendency towards this exit from the present *impasse* seems inevitable, though Swarajist stalwarts are stoutly denying its possibility and once more raising their somewhat tattered banners of obstruction. It is probable that a further waste of time and energy for the sake of "political demonstrations" will first take place. The next Assembly promises a stormy session. The Swarajists will have a fine bundle of popular cries: the Bengal Ordinance, the Lee Commission, the Taxation

India : The Political Chaos

Enquiry Committee, and "Political Prisoners." It is quite probable that the budget will be again thrown out. But what can the party do ? If they possessed the qualities of sobriety and reason, their obstruction would be serious ; but as their policy is at present directed, it becomes of doubtful moral significance.

Mr. Gandhi is a spent force. His future seems to lie in the direction of social reform ; but even here he will encounter no easy task. A formidable opposition to his campaign for the removal of untouchability is beginning in Bombay ; excited protagonists of orthodoxy have accused him of heresy and demanded that he should be lynched. The new spinning franchise of the Congress seems illusory ; and the foreign trade returns show what strength there is in the boycott of imported cloth.

The Liberals are not in power, it is true ; but their influence is none the less great. The sanity of their opinions is attracting them the support of a number of progressive Englishmen ; and a leading journal of Anglo-Indian opinion has endorsed with little comment Dr. Paranjpye's Lucknow programme. If the Swarajists persist in their present policy, the day of the Liberals will surely come.

Hindu-Mahomedan relations, as we have already noticed, are highly critical, and will probably be worse before they are better. It is fortunate indeed for the cause of Indian Nationalism that the British Administration does not in reality pursue the policy of "divide and rule," of which it is so often accused. For official encouragement of Mahomedan claims at this present juncture would render responsible government unthinkable for a century, and secure the real, if reluctant, support of almost all classes for the continuance of British rule, lest worse should follow.

The upshot is that the initiative rests more absolutely with Government than ever before.

India. January 13, 1925.

UNITED KINGDOM : CURRENT POLITICS

PARLIAMENT resumed its sittings, after the Christmas holidays, on February 10. Since the end of the General Election the party battle has been more or less dormant. After a high and prolonged diet of combative politics, the nation has been convalescing on cross-words and cabled cricket in a land intermittently discernible through fog and flood.

The session before Christmas disposed of the King's Speech and some non-contentious legislation. The Speech, which was long, was mainly a restatement of the Unionist campaign programme, summarised in the December number of *THE ROUND TABLE*.^{*} Its announcement of a visit by the Prince of Wales to the Argentine this year was unexpected. It ended whatever doubt there may have been of the Government's intention to proceed with the Singapore base.

During the respite from conventional party polemics the shadow of coming events and problems in this year's history has been visible in the Press. The approaching conjunction of the Pound and the Dollar is hailed by the great majority as auspicious. There are few who fail to conceive of "normalcy" as resting on gold foundations. Linked with hopes of sterling at par are hopes of an enlightened and lightening Budget from Mr. Churchill,

* *THE ROUND TABLE*, No. 57, December, 1924, pp. 132-5.

United Kingdom : Current Politics

though, while every cut in taxation makes the next more difficult, the disposition is rather to pray for miracles than to expect them, even from Mr. Churchill. Mr. Austen Chamberlain's visit to Paris and Rome, and the ill-success of the Protocol, leave the question of security—as the continued occupation of Cologne testifies—in the air, which resounds with it. Mr. Churchill's conference with the Allied Finance Ministers, on the other hand, brings the attached question of Debts to earth. The impact of the British ultimatum upon the politics of Egypt will be measurable after the Egyptian elections, now being held. Lastly, in England, a rising market appears to be drawing with lunar force a fresh tide of active industrial unrest.

Most of these matters are dealt with in separate articles and need no further reference here. Other outstanding features of a quiet period are the Government's statement of its fiscal policy and the obstacles which have arisen to the development of its programme with regard to housing and agriculture. At the General Election the Government pledged itself to grant a preference on Empire products, to put no tax on food, and to provide for the safeguarding of any industry imperilled by unfair or abnormal foreign competition in the home market. In the debate on the King's Speech the Government was strongly pressed to declare itself in greater detail on this section of its election manifesto. Its preference intentions are clear. It will enact in the next Budget the proposals agreed to by the Imperial Conference in 1923, submitted to Parliament by Mr. Baldwin last spring and rejected by narrow majorities. More anxiety, genuine and professed, has been felt over the precise form and definition which the Government would give to its fiscal "safeguards" for home manufactures. In the debate the Opposition derived some satisfaction from being able to summon Mr. Baldwin and Sir Philip Cunliffe-Lister, unashamed Tariff Reformers, and Mr. Churchill, unrepentant Free Trader, to defend their

United Kingdom : Current Politics

common but as yet undefined policy of safeguarding. The perils of the course which the Government was pledged to take naturally lost nothing in the Liberal telling. Nor did the Opposition economise its suspicions that the "honest" Ministry would contrive to take back by stealth the solemn promises with which it had reassured the Free Trader, and introduce a tariff by the back door. Government explanations as to the conditions which they would require before they held the favoured treatment of an industry to be justified culminated in the term "unprecedented."

The plan which the Cabinet has since adopted and announced lays down safeguards for safeguarding. Mr. Baldwin has not proceeded by way of a Bill giving the Board of Trade general power to impose a tariff in favour of an industry which has made out its case, after enquiry, to the satisfaction of the Board. He has chosen the reverse method, which requires no immediate legislation. An industry has to satisfy first the Board and then a Special Committee of Enquiry that it is of substantial importance, that it is conducted with efficiency, that it is suffering from foreign competition of an intense and unusual kind, that the foreign competitor is not working under equal conditions, that employment is being seriously affected, and that a tariff could be imposed without serious injury to employment in other industries. When the industry has run the gauntlet of the committee and come through unscathed, the concurrence both of the Board and the Treasury in its recommendations is required. Parliament will then be invited to impose the necessary tariff in the annual Finance Bill, so that the deserts of every case will be discussed again. Such a tariff would be a general tariff against all countries. A special tariff against the competitor chiefly invoked would be incompatible with the most-favoured nation clause in commercial treaties such as that recently concluded with Germany. Industries seeking the prize of protection will not come at it without much diligence, guarded as it is by these triple walls.

United Kingdom : Current Politics

Tariff Reformers are disposed to think that the Government has been too pedantically virtuous. On the other hand, the Free Trade parties would perhaps have preferred, for campaigning purposes, a scheme less rigorously contrived.

Steel Houses

A much increased provision of houses will be necessary if the present generation is to carry out its duty and its desire of clearing slums and insanitary areas and rehousing the inhabitants. Liberals and Unionists are of the opinion, which they have urged many times since the war, that, as the insufficient supply of skilled building labour is the main barrier to progress, the unions should consent to a special recruitment and training of labour, now unemployed, for the purpose. The unions have successfully maintained a stubborn front against this suggestion. The most that they have been induced to accept is a higher proportion of apprentices.

Unless some way out of the deadlock can be found, the country is restricted to a rate of advance far short of its hopes and of its statesmen's promises. Can a way out be found? The question has turned several engineers to a search for the answer. While Mr. Wheatley was still in office, more than one design had been worked out for a house which would make no call upon the building industry either for labour or materials, and would be more cheaply and quickly erected than a house of brick. The name of Lord Weir, as its political and industrial pioneer, is usually associated with the "steel house." Other designs are also on the market and have been favourably reported on by the Committee charged with investigating alternative housing methods. Mr. Wheatley was sympathetic. His successor has championed the new invention with vigour, not as a rival to brick, but as a rather more than tolerable instrument of wholesale slum clearance. A special Govern-

United Kingdom : Current Politics

ment grant has been made to enable local authorities to erect sample houses of this kind for public inspection and criticism.

At this point the Federation of Building Trade Operatives has put in its word. Lord Weir proposes to recruit the necessary labour from the unemployed in the shipbuilding and engineering trades. The Federation requires that labour employed on the new houses shall be paid at builders' rates and work under builders' conditions. As the principal work will be merely that of bolting together the parts of a house, this means paying unskilled labour at skilled rates. If the claim were to succeed in that form, the addition to the cost of the "steel house" would rob it of most of its advantage. In that form it is dictation which will certainly be resisted.

Agriculture

Mr. Wood, the Minister of Agriculture, has also a nettle to grasp. A tariff being ruled out and a corn subsidy being ruled out, the Government made it part of their policy to invite the agricultural industry to hold a conference and to recommend what measures short of these could usefully be undertaken to assist the industry. Such measures it was hoped to enact by general consent. Arrived at in this way they would be proof against the political changes from which the industry has suffered in the past. The conditions for a conference were drafted and invitations were issued to six representatives from the landowners' organisations, six from the National Farmers' Union, and three each from the National Union of Agricultural Workers and the Workers' Union. The landowners accepted. The farmers, after manœuvring, without success, to ascertain from the Government in advance how far it was prepared to go in the way of assistance, also accepted. The unions have both refused to enter the conference,

United Kingdom : Current Politics

partly on the grounds that, as the landowners and farmers had twelve representatives to their six, "the dice would be loaded against them," partly because the Government did not "take responsibility" for the conclusions of the conference in advance.

These reasons seem to show a complete misconception of the purpose of the conference. Its object would be, not to settle an agricultural dispute, but to present the Government with an agreed and authoritative statement from the industry itself of the lines which it considered policy could take. It would be difficult, if not impossible, for any party to resist its agreed recommendations. But no Government could consent to give them general approval before it had seen them. Labour's refusal to co-operate probably disposes of a plan which had not been tried before and was well worth trying. It recalls the tactics which brought the Labour administration to grief in the last Parliament when it preferred the defeat of its policies to any understanding with the Liberals.

The Liberal Convention

The Unionist party has been celebrating its victory with large meetings and declarations of loyalty to the spirit of Disraeli rather than that of Lord Eldon. Labour, encouraged by the last election and realising what stands between it and a Parliamentary majority, has set to work on a missionary campaign in the counties. The Liberal party has set about repairing its misfortunes by recasting its programme and reorganising its machine. Immediately after the election Mr. Asquith appointed a committee to overhaul the aims and constitution of the party. At the beginning of February a national convention met in London to receive and consider its report. The main purpose of the recommendations was to secure that decentralisation on which the local organisations insisted. The principal

United Kingdom : Current Politics

decision taken, apart from this, was to raise a "democratic" fighting fund of a million pounds and to place a candidate in every constituency at the next election. Though, naturally, Liberal reorganisation cannot command a Liberal revival and the outlook for Liberalism is in no way changed since we wrote of it after the elections, the spirits of the convention were high and its enthusiasm strong.

A certain amount of discussion, not all disinterested, played in the Press round the future of the party leadership. When the front row of the platform rose, at the opening of the proceedings, before the cameras of the Press, the photographers protested, "Mr. Asquith only, please." They might have been taken to express the feelings of the delegates. Mr. Asquith remains the only possible leader of a united Liberal party, waiting what fortune the course of parties in this Parliament and the next may bring it, and asserting its independence and vitality by all the means it can meanwhile. But Mr. Asquith will lead the party from the House of Lords as the Earl of Oxford and Asquith—a historic title by universal consent worthily bestowed. Mr. Lloyd George, who took occasion to express warm loyalty to his leader, will lead in the Commons. He will have along with him a vigilant group, newly formed, of professing "Radicals" under the guidance of Mr. Runciman.

CANADA

I. THE RELUCTANCE TO CO-OPERATE IN FOREIGN AFFAIRS*

CANADIAN opinion cannot be said to have responded favourably to recent developments in Imperial policy. Public criticism, though confined in the Egyptian crisis chiefly to disclaimers of interest, and, in the controversy over the registration of the Irish Treaty, to unconsenting silence, has still been sufficiently active in a guarded, desultory way to indicate much uneasiness; while the Government's virtual refusal, for the second time within a year, to discuss any measure of co-operation implies, if anything, a stiffening in the attitude of cautious resistance to Imperial commitments which has lately become so prominent a feature of Canadian opinion. There evidently exists in Great Britain, not merely a general inability to understand this attitude, but also a distinct tendency to misapprehend it. The not uncommon assumption, for instance, that opposition to co-operation emanates chiefly from a comparatively unimportant group of fanatics who enjoy a temporary ascendancy over the present Canadian Government can only serve to obscure a point of view which, far from meditating disruption of the Empire, recoils from

* This section is contributed by a correspondent who analyses a point of view widely held in Canada to-day; we print it, without expressing our concurrence, because we believe it important that this point of view should be understood.—*Canada, January 24, 1925.*

Reluctance to Co-operate in Foreign Affairs

all the more extreme aims of the local nationalist sect. The contradictory assumption, which connects nearly all opposition to co-operation with ignorance or self-satisfied indifference, is probably less remote from the truth ; yet the volume of opposition to co-operation appears to increase with the growth of interest in foreign affairs. Indeed, the most consistent and convinced supporters of the Canadian Government in its refusal to commit itself are usually the very people who have been at the greatest pains to inform themselves thoroughly about Imperial issues no less than about foreign policy. Though the number of such well-informed people cannot be large, their opinions enjoy the special importance of alone providing at the present time any sort of intellectual vehicle for the political instincts and prejudices of what must, unless Mr. King's Government is peculiarly insensitive to opinion, be a substantial majority of the population. The succeeding paragraphs aim simply at presenting a more objective impression of this aspect of Canadian opinion than any that seems to prevail in Great Britain at the present time.

One of the first questions that troubles these critics of co-operation is why, if this movement is free from the old taint of centralisation, from all idea of subordination, does it still draw its principal support from those who used to be the foremost advocates of Imperial Federation ; for the unpersuaded cannot help hearing in those disturbing predictions that are sometimes used to point the dangers of delay, an echo of the once familiar warning that an Empire unfederated would crumble at the first touch of war. Nor can they help feeling that they recognise an old doctrine in the current assertion that full enjoyment by the Dominions of their new status waits upon the introduction of a system that will give them an "adequate voice" in the direction of foreign policy ; for they suspect an invitation to share "complete equality of partnership" when it seems to them to come most effusively from the very quarters that have shown the greatest resentment at all developments,

Canada

such as the Halibut Treaty and separate representation at Washington, that mark an advance towards the legal conception of sovereignty. A similar suspicion attaching to the more sympathetic expostulations against their exclusion from Lausanne is reinforced by the knowledge that, notwithstanding Mr. Meighen's protestations, the majority of Canadians were only too thankful to abstain from a conference dealing with the settlement of the Near East. In short, the critics of co-operation regard these discrepancies and associations as proof of a centralising tendency ; and they insist that the professed ardour to confirm a new status in the eyes of the world simply disguises a pressing anxiety to substitute for the Canadian trend towards exclusive control of foreign policy in a restricted sphere, a positive commitment to the general foreign policy of Great Britain and a share in the burden of Imperial defence.

At this point the advocate of co-operation, to whom the argument is addressed, might enter a demurrer and inquire what, after all, the Dominions would stand to lose by taking a share in the direction of affairs many of which do concern them, and in the present conduct of which they not infrequently find grounds for complaint. The opponents would reply that co-operation of any general kind would appear to involve the relinquishment not only of such minor but precious attributes of sovereignty as they have succeeded in acquiring during the last few years, but also of independence of action in the League of Nations, and that as compensation they might expect to receive the barest modicum of influence over policies often of no direct interest to themselves and usually of absorbing interest to Great Britain ; for, they would add (with references, no doubt, to Chanak and Sir Basil Zaharoff), the course of events since the war has made it appear very doubtful whether any general identity of interest exists upon which a policy of close co-operation can be based. And if here again the protagonist of co-operation interupts to express his conviction that such episodes are unlikely to recur and that

Reluctance to Co-operate in Foreign Affairs

a distinctively Imperial foreign policy could be made to embrace the interests of all the Dominions, as well as of Great Britain, the answer would come back that these very events have proved that it is precisely the Imperial aspect of British foreign policy that, as a rule, diverges furthest from Canada's (though not perhaps from Australia's) obvious interest ; Britain's more distant markets, her reservoirs of raw material, her remote trade routes, in fact nearly all the daily concerns of her Imperial policy, are hardly any of them Canada's. So great, it would be pointed out, are Canada's own undeveloped resources that her interest in the exploitation of Africa and the East must continue for an indefinite time to be confined to the possible effect of colonising rivalries upon the peace of Europe. With Britain, the chief liberal Power of Europe, she has found grounds for co-operation before, and may again, though the possibility depends upon the future effectiveness of the League of Nations ; but between Britain, the supreme mercantile Power of the old world, committed to vast commercial enterprises in the Orient, and Canada, a relatively undeveloped and still mainly agricultural country in North America, it is impossible to assume anything approaching identity of interest ; and yet, the argument will conclude, it is precisely on this assumption that Canada is invited to co-operate in Imperial affairs.

If, at this point, the co-operationist admits some difficulty in reconciling material interests but points out that a refusal even to discuss solutions is jeopardising a great experiment in international association, the opponents will return to the original charge ; the present movement, notwithstanding its name, means centralisation and not internationalism ; it threatens freedom of action in the League of Nations (for do not the majority of co-operationists approve the British Government's refusal to recognise the registration of the Irish Treaty ?) ; it aims at the creation of an Imperial armament through securing the adherence of the Dominions to such undertakings as Singapore ; and, finally, it runs

Canada

completely counter not only to the interests, but also to the reasonable aspirations of the Dominions. And if the reference to the Irish Treaty evokes an expression of surprise at so much concern about sovereignty among such ardent supporters of the League of Nations, the rejoinder will come that this interest in sovereignty is to some extent, at any rate, the result of constant reference to the Austinian doctrine as a compelling reason for co-operation; if instead of seizing every opportunity to emphasise the anomalous position at present occupied by the Dominions in the eyes of International Law, the co-operationists showed some disposition to assist in securing recognition of that position, very little would be heard about sovereignty. For no "fatal obsession with nationalism" or desire for disruption prompts the opposition to consultation, but a reluctant conviction that, so long as even interested people in Great Britain misunderstand so completely the causes of Canadian hesitation, a conference on co-operation would accomplish nothing but a renewal of friction. For the preservation of the Commonwealth it will be less dangerous to leave the familiar empirical genius slowly to work out some method, however fumbling and illogical, than to join in an effort to force the issue which might prove disastrous.

While it is clearly along some such lines as these that an important section of Canadian opinion is at present moving, and while recent events leave little room for doubt that the negative side of this argument expresses with reasonable accuracy what might be described as the Imperial inhibitions of a very large number of Canadians, it is by no means clear that the country as a whole feels disposed to assume the further positive commitments on behalf of the League of Nations that seem to follow logically from such reasoning. The League has had the benefit of a good deal of publicity during the last few years and, in spite of its frequently disappointing performances, is probably more popular now than it was in the days of the attacks on Article 10; but the element of idealism, to

The Results of the 1921 Census

which it must look for its principal support in every country, is, in Canada, largely a product of the west, and seems still, like its counterpart in the western States, to be tinged with the sentiment of superiority towards the older States menaced by war that encourages isolation in international as well as in Imperial affairs.

II. THE RESULTS OF THE 1921 CENSUS

VOUME I. of the 1921 Census of Canada was issued at the New Year, and there is now sufficient material to make possible a general summary of this latest national stock-taking. Its importance is enhanced by the present world-wide discussion of the theory of population, for phases of which the Canadian data are of special significance, and because the basic factor in Canadian progress to-day is admitted to be increase in population. As Sir Lomer Gouin has said, an addition of three million people would automatically solve the railway problem and would place the country in secure domination of its war taxation.

The results of the census show a rise in the total population of the Dominion from 7,206,643 in 1911 to 8,788,483 in 1921, a gain of 1,581,840, or 21·95 per cent. In the preceding decade the gain was 1,835,328, or 34·17 per cent. Thus there has been a slowing up in the rate of increase. It could not well have been otherwise, even apart from the war. In the first decade of the century Canada grew faster than any other country by such an extraordinary margin that the pace could not be kept up permanently. She still maintains this pre-eminence, except that the sister Dominion of Australia has outstripped her by a fraction of one per cent. The general margin of her lead, however, has declined. Europe, which gained 12 per cent. in population in 1900-1910, gained only about one per cent. in 1910-1920; and the United States gained 21·0 per cent. in 1900-1910, but only 14·9 per cent. in the past decade.

Canada

The process by which this growth was achieved, from within and without—the part played by natural increase on the one hand and the balance between immigration and emigration on the other—must first engage attention in any analysis of broad results. Natural increase, or the excess of births over deaths, may be put down at 1,150,000, though the lack of comprehensive vital statistics prior to 1919 leaves the figure open to some question. With regard to immigration, the first three years of the census period witnessed the continuation, intensification, and final culmination of that remarkable outburst of expansion which had been in progress with only temporary set-backs since the beginning of the century. In 1911 immigration for the first time in the history of Canada passed 300,000 a year, and it was still higher in 1912. In 1913 it passed 400,000, and in 1914 it was only a little short of this high record. For the four years the total was 1,452,631. Capital meanwhile was still pouring in at an equally unprecedented rate, though the closing months of 1913 saw a reaction well under way. Then came the war. Undoubtedly the first effect was a considerable loss of population, especially from among the new arrivals. There was an immediate return of volunteers to Great Britain, and the neutrality of the United States facilitated the exodus of many enemy nationals. The war, however, after the initial stages, gave a new and helpful direction to the re-adjustment begun early in 1914. It greatly stimulated agriculture, and the simultaneous demand for munitions employed to the full the industrial plant which had been built and over-built during the preceding years. Canadian manufactures gained unmistakably in initiative, in technical efficiency, and in variety under the stimulus of war and through the increased purchasing power of the farmer. This was followed by the post-war boom which had barely subsided when the census was taken. Immigration, of course, stood still while the war continued, and its recovery thereafter has been slow; yet the total for the decade

The Results of the 1921 Census

stood at 1,728,921. Canada has no statistics of emigration, and disappointment in consequence is usual when the census comes round, through stress having been laid consistently upon arrivals alone. Yet in a country that is building rapidly from immigration the loss through lack of retention is always considerable. In 1910 the United States Immigration Commission declared that no less than 40 per cent. of their immigrants left within a comparatively short time. In Canada, with the immense labour market of the United States at her elbow, the loss is undoubtedly larger. During the boom before the war, moreover, there were many evidences to show that a considerable portion of the immigrants were in reality but a short-time loan of labour by Europe in connection with the vast constructive undertakings under way. Foreign money orders, for example, to such countries as Sweden, Austria and Italy, can mean only remittances of wages home, and they soared during the years in question. Altogether there must have been an emigration approaching 1,200,000 from Canada during the decade covered by the census, and to this must be added 60,000 casualties in the war, and 20,000 soldiers who received their discharge overseas. The balance-sheet would therefore in round numbers read: gain by natural increase and immigration, between $2\frac{3}{4}$ and 3 millions; loss by exodus and war, at least a million and a quarter.

The second main analysis of the census in a country so diversified as Canada is that of distribution. The western provinces are again prominent, though not in so spectacular a way as in 1911. The three prairie provinces have gained but 527,961, compared with 908,609 in the preceding decade, whilst British Columbia has increased by 132,102 compared with 213,823. Ontario and New Brunswick, on the other hand, have added more people than in 1901-1911, Ontario 406,370 compared with 344,345, and new Brunswick 35,987 compared with 20,769. Quebec and Nova Scotia registered approximately the same in-

Canada

creases as in the previous decade. Only one province, Prince Edward Island, shows a loss of 5,113. (Prince Edward Island has been falling behind since 1890, and in fact has less population to-day than at Confederation.)* In proportion to the whole, 28·23 per cent. of the population is now west of the Great Lakes, instead of 23·88 per cent. in 1911. All four of the western provinces have increased in relative importance during the decade; all the others have declined. The table below presents these and other important facts more fully.

Province or Territory	POPULATION OF CANADA, BY PROVINCES AND TERRITORIES, 1911-21.		Increase		Percentage Distribution	
	1911	1921	1911-1921 No.	Per cent.	1911	1921
Prince Edward Island ..	93,728	88,615	-5,113	-5·46	1·30	1·01
Nova Scotia ..	492,338	523,837	31,499	6·40	6·83	5·96
New Brunswick ..	351,889	387,876	35,987	10·23	4·88	4·41
Quebec ..	2,005,776	2,361,199	355,423	17·72	27·83	26·87
Ontario ..	2,527,292	2,933,662	406,370	16·08	35·07	33·38
Manitoba ..	461,394	610,118	148,724	32·23	6·40	6·94
Saskatchewan ..	492,432	757,510	265,078	53·83	6·84	8·62
Alberta ..	374,295	588,454	214,159	57·22	5·19	6·70
British Columbia ..	392,480	524,582	132,102	33·66	5·45	5·97
Yukon Territory ..	8,512	4,157	-4,355	-51·16	0·12	0·05
N.W. Territories ..	6,507	7,988	1,481	22·76	0·09	0·09
Royal Canadian Navy ..	—	485	485	—	—	—
Canada ..	7,206,643	8,788,483	1,581,840	21·95	100·00	100·00

Race and language are powerful factors in Canada, with her two great national groups and two official languages, as well as her problem of the assimilation of foreign immigrants. The Canadian census goes further than most in endeavouring to record ultimate racial origins (in the sense, perhaps, rather of original family habitat than of true ethnic strain), as well as recent national affiliations. During the past decade those of British stock (meaning those of English, Scotch, Irish or Welsh descent) have increased from 3,896,985 to 4,868,903, or

* Considered as rates of growth, these results are more striking. The west has registered a slackening—taking the extreme instances only—from a rate of 80·79 per cent. to one of 32·23 per cent. in Manitoba, and from 439·48 per cent. to 53·83 per cent. in Saskatchewan. Ontario and New Brunswick have gone up from 15·77 per cent. and 6·27 per cent. respectively to 16·08 per cent. and 10·23 per cent. Quebec has fallen off from 21·64 per cent. to 17·72 per cent., and Nova Scotia from 7·13 per cent. to 6·40 per cent.

The Results of the 1921 Census

by 971,118, while the descendants of the original French colonists have increased from 2,050,890 to 2,452,751, or by 397,861. Thus the British gain has considerably more than doubled the French. The British "races" have increased from 54·08 per cent. of the whole population in 1911 to 55·40 per cent. in 1921; the French have declined from 28·52 per cent. to 27·91 per cent. In the previous decade both the British and the French declined in relative standing as a result of the heavy immigration. Those of alien race have increased by 212,061 since 1911; this makes them 16·69 per cent. of the whole, against 17·40 per cent. in 1911. Thus the past decade shows an increasing ascendancy of the British element in the Confederation. Of foreign infusions the most notable were those from Scandinavia, Russia and Austria, and Hebrews in the larger cities. The figures of the German element are surely a lapse in the census. They have declined from 393,320 in 1911 to 294,636 in 1921. As the number of "Dutch" shows an increase from 54,986 to 117,814, though no such birth rate or immigration was recorded, the change is almost certainly due to wrong descriptions given to the census enumerators under feelings bred of the war.

The returns of the native- and foreign-born tell the same story. The Canadian-born have gone up from 5,619,682 to 6,832,747, those born in other parts of the British Empire from 833,422 to 1,065,454, those born in the United States from 303,680 to 374,010, and those born in other foreign countries from 449,859 to 516,272. Expressed as proportions of the whole, the Canadian-born and the United States-born remain about stationary, the other British-born show an increase of less than one per cent., whilst the other foreign-born show a slight decrease.

A cross-check of the returns of birthplace and racial origin gives interesting results. Among those born in the United States were some seventy thousand who described themselves as of French origin. Undoubtedly these are

Canada

mainly descendants of French Canadian emigrants to the New England States, and their return to Canada represents the strong attraction of Quebec upon the children of her loins. The United States census, it may be added, shows a French population of about 300,000, so that the seventy-five thousand French colonists at the time of the British conquest appear to have increased to about three millions on the North American continent to-day. Another interesting product of the same cross-check is that, of the 374,010 people of United States birth in Canada, 205,189 described themselves as of ultimate British extraction.

The language returns of 1921 have been more complete than those of previous censuses. Only the population of ten years of age and over is included in these calculations, the total being 6,682,072. Of these 5,665,527 can speak English—in other words, only 15·21 per cent. of the people of Canada are unable to speak the dominant language. As to the language used in the home, there are 4,099,246 people who speak English, including 266,856 persons of non-British races; 1,757,193 speak French; 225,431 speak one or other of the Germanic languages; and 187,347 and 103,977 are entered respectively under the Slavic and the Scandinavian groups. Of course, many who speak other languages than English speak the latter as well—over a million and a half, as may be deduced from the figures just given. Of 850,249 foreign-born, 749,997 can speak English, and only 83,054 speak a foreign language alone. Comparison is often made of the extent to which the British and French in Canada speak each other's language; a good deal of effort has recently been directed to spreading bilingualism as a means of removing misunderstanding. It is interesting therefore to note that of the 1,771,077 of French descent in Canada above ten years of age, 878,850 speak both English and French, 869,872 speak French alone, and 19,092 speak English alone. Among those of British "race" 3,658,030 speak English alone, and only 176,870 speak both English

The Results of the 1921 Census

and French; there is in addition a group of 4,664 who speak French alone—mostly the descendants of early British settlers in Quebec. Thus more than half the French Canadians speak English, and less than 5 per cent. of the British speak French.

Into the analyses of sex and ages it is unnecessary to enter at any length. The Canadian population is of high "masculinity" (*i.e.*, proportion of males to females), as is to be expected in a country where immigration plays so large a part, though the war, by checking immigration and by its toll of male lives has considerably reduced the excess of males. The Canadian "median" age is now 5·144 years higher than at Confederation. This may be attributed partly to the smaller proportion of children in recent years, but partly also to the longer average duration of life. Age, it may be remarked, is a most important element in the economic strength of communities. The population of Quebec is a much "younger" population than that of Ontario, her median inhabitant being 20·79 years of age, whereas the median person in Ontario is 26·76. Montreal is larger by nearly 100,000 than Toronto, but the difference is in persons under thirty years old, two-thirds of it in children under 15. Hence Montreal exhibits such phenomena as higher birth and death rates, larger and more burdensome educational problems, more child labour, a larger proportion of non-workers, with resultant lower rates of wages, longer hours and lower general standards of living.

The tendency to urbanisation is again strongly marked in this census. The urban increase has been 1,079,175 in the decade, as against a rural increase of but 502,665. This compares with urban and rural increases of 1,258,725 and 576,603 respectively in the preceding decade. Fifty years ago only 18 per cent. of the Canadian population lived in cities, towns and villages. The number has steadily mounted until in 1901 it stood at 37·50 per cent., and in 1911 at 45·42 per cent. To-day it is 49·52 per cent.,

Canada

a state of almost exact equilibrium between town and country. Thus the past decade has seen the intensification of a change which may appear anomalous in a country whose cornerstone is agriculture. In the United States, however, the percentage of urban population went up from 46 to 51·4 in the ten years ending in 1920. (And this figure is not to be compared with that for Canada, since it includes only places of 2,500 and over, whereas the Canadian figure embraces all incorporated towns and villages ; in cities and towns of 5,000 and over the United States has 47·0 per cent. of her population, whereas Canada has only 36·55.) This trend is even more apparent in Australia (urban, 62·1 per cent.) and New Zealand (urban, 55·9 per cent.). In Canada the "set" in this direction seems no more pronounced than in many other countries—no country is wholly free from it. By provinces, Nova Scotia, Prince Edward Island and Quebec have actually declined in numbers of rural inhabitants since 1911, and all the provinces except Alberta, Manitoba and British Columbia have declined relatively in the proportion of rural population to urban. The largest cities are growing the fastest. Canada now for the first time has cities of over 500,000 inhabitants, Montreal and Toronto ; together they include nearly 13 per cent. of the population, though this is small beside the 30·6 per cent. which Melbourne and Sydney comprise in Australia and the 19·3 per cent. of Buenos Aires in Argentina. Among Canadian cities of the second rank Hamilton and Ottawa have been added to Winnipeg and Vancouver as cities of between 100,000 and 200,000, and Calgary, London, Edmonton, and Halifax have joined Quebec in the 50,000–100,000 class. The small towns as well as the farming communities are helping to feed the cities. The older rural sections of Quebec have declined. Most of the older counties of Ontario have likewise lost people both from the land and from their towns and villages ; one-half of the entire growth of Ontario is in Toronto and its environs. Mining and farming,

The Results of the 1921 Census

however, have brought accessions to New Ontario, and the trek from rural Ontario westward has been checked; in the preceding decade Ontario fell off in actual numbers of rural population, but this was not the case in 1911-1921. In the west, Manitoba is feeding Winnipeg from her small municipalities, and Calgary and Edmonton are prospering in the same way; but the prairie provinces as a whole show a much larger rural than urban growth. In them altogether an additional 393,905 people have been placed upon the land during the decade, over three-quarters of the entire rural growth of Canada; and most of the remaining growth occurred in British Columbia.

Notwithstanding this urban increase, there has been also a great expansion in agriculture. The number of farms has gone up from 682,389 to 711,090, the total farm acreage from 108,968,715 to 140,887,903, and the improved acreage from 48,733,823 to 70,769,548. If the boom of 1900-1913, based on the opening up of the west, seemed in its latter years to have overshot the mark in capital equipment, the restoration of the balance between production and overhead is clearly under way. Wheat has gone up from an annual acreage of 8,864,154 in 1911 to one of 22,671,864 in 1923, and from a yield of 132,077,547 bushels to a peak of 474,199,000 bushels, with the result that Canada became in 1922 and 1923 the leading exporter of wheat in the world. Only less striking have been the gains in oats and barley. On this process the recovery of agricultural prices in the past six months has set the seal. The official index number of farm prices has gone up since the past summer from 128 to 159 (1913 prices=100), equalising the number for manufactured articles, which had never dropped below 152. The farmer and the manufacturer are now once more on a parity in the market, a change of considerable consequence politically as well as economically.

The census is now three years away. The interval has seen the first real incidence of post-war liquidation. The official estimate of population for 1924 is 9,226,200.

Canada

This is a calculation *pro formula*, but the method has proved reliable in the past. It is supported by a known excess of births over deaths of 445,000 since 1921, and by an immigration of 311,000, from which of course must be subtracted the unknown factor of emigration. The "pull" of the United States upon a virile people of like language and institutions is continuously felt in Canada, whose industries are seasonal in a high degree, and whose labour organisations issue travelling cards that are valid in the Republic.

It is estimated that over 9,000,000 people annually cross the boundary between the two countries. The attraction has been especially potent under the United States quota law which exempts Canadians, and has created a labour vacuum of which the chief powers of suction are exercised upon the Dominion. Yet the United States returns of immigration from Canada, usually considered to err on the side of excess, total but 364,500 since 1921, and except to the United States there has been no considerable loss. It is conservative to say that Canada in 1925, in spite of her economic difficulties, has achieved a population of nine and a quarter millions.

III. THE CANADIAN SALES TAX

CANADA, like other countries, has had to exercise some ingenuity to meet the increased cost of pensions, interest, and other charges arising out of the war. One of the most lucrative of the new sources of revenue is the sales tax, which, first introduced in 1920, now produces about one-quarter of the total revenue from taxation. Taxes of this type are not unknown elsewhere: Great Britain was obliged to multiply her excise taxes after the Napoleonic wars, and at present some kind of general excise is found in Germany, France, Belgium, Austria, Czecho-Slovakia, Italy, and several other countries. Most

The Canadian Sales Tax

of these taxes—at least in Europe—are designed after the German model. The Canadian tax, however, embodies several distinctive features : and a brief description of it may be interesting to students of national finance.

The Canadian tax is cheap and easy to collect because most of the cost of collection is imposed upon the manufacturers. Each manufacturer whose output exceeds \$10,000 a year is required to obtain a licence, which enables him to buy his materials free of sales tax ; but he is obliged to pay a tax of 5 per cent. on his sales. This sum he will naturally endeavour to recover from his customers by increasing the price of his goods ; and in this effort, except during trade depressions, he will usually succeed. The tax is thus shifted to the ultimate consumer in the form of higher prices. Imported goods are subject to the tax as well as those manufactured at home ; in fact the sales tax slightly increases the protection enjoyed by domestic producers, since it is imposed upon the duty paid value of imports. On the other hand, no tax is imposed upon goods which are exported. But this leaves the Canadian exporter subject to two handicaps. First, his cost of production is increased by payment of the sales tax on machinery, oil, office supplies, etc., used in his plant ; secondly, the United States customs appraisers include the sales tax when valuing Canadian goods for duty purposes, even though the sales tax is not actually collected on export goods.

Had the sales tax been imposed upon all commodities without exception, it would have led to great political and administrative difficulties. If farmers, for instance, had been required to keep a record of all their sales and pay the tax on them, such a scheme would have been wrecked by the well-known deficiencies of agricultural book-keeping. Even if this difficulty could have been surmounted, the farmers would have had just ground for complaint ; for, as the prices of their chief products are fixed in a world market, they could not have shifted the

Canada

tax by raising the price of wheat. The tax would have fallen with all its weight upon the original victims. And even if the farmers had been able to shift the tax on some of their products, there would have been a new objection on the part of consumers in general to a tax which thus increased the price of the prime necessities of life. For these reasons, grains, animals, milk, and other primary foodstuffs are exempt. Several other industries receive special consideration. The fishing industry is favoured by exemption of boats and equipment; materials used for building, repairing, and equipping ships are free of tax; all manufacturers benefit by the exemption of fuel; paper used by newspapers and magazines is taxed at a lower rate; settlers are allowed to sell logs and their products free of tax; and various interests are conciliated by the exemption of artificial limbs, war memorials, Bibles and prayer books. In addition to these exemptions, manufacturers whose sales amount to less than \$10,000 a year are exempt from payment of tax on their sales; but on the other hand, they do not obtain their materials taxfree. This exemption therefore does little to reduce their costs except by freeing them from the task of book-keeping for the Government.

The special merits of the Canadian tax may perhaps best be seen in comparison with the turnover tax in Germany. This tax (now reduced to $1\frac{1}{2}$ per cent.) is imposed on each sale, so that an article which changes hands ten times during manufacture and distribution is taxed ten times. The Canadian tax falls upon each commodity but once, while the German tax accumulates by repetition. The German exporter is placed at a disadvantage: the cost of his goods is increased by the pyramiding of the tax at each stage, but he is granted no refund on export. The reason is that it is quite impossible to determine the exact amount of tax which has been paid on any specific parcel of export goods, because the total is made up of all the payments made by all the firms which have handled the goods. In Canada the manufacturer pays the tax once

The Canadian Sales Tax

for all, and there is no difficulty in exempting his production for export or in granting him a drawback. The German scheme makes it the interest of producers to reduce the number of changes of ownership. Large integrated concerns, which extract their own raw materials, carry through all stages of manufacture, and even sell direct to the consumer, reduce their burden of taxation. Small firms buying from wholesalers are placed at a disadvantage. In Canada large concerns enjoy no special advantage, as the tax is paid but once. The labour and cost of collection is far smaller in Canada than in Germany, since the authorities have only to concern themselves with manufacturers having an annual output of \$10,000 or more.

In comparing taxation in Canada with that in Great Britain, the weight of customs duties and the sales tax must be taken into account as an offset to the lower normal rates of income tax. The cost of living and the general price level must be affected by a tax on sales which falls upon almost every expenditure except those for food and housing. Yet it would be extraordinarily difficult to measure the precise extent by which the price level is raised. The sales tax may not be quite painless to the consumer, but at least no one can measure the exact amount of pain which he suffers from it except the manufacturer.

Should the sales tax be condemned as regressive? The answer depends on the nature of the possible substitutes. It is certainly not a fiscal panacea. In a long-settled and industrialised country with a dense population and a highly developed fiscal organisation, it may be preferable to extend the income tax rather than to devise new methods of indirect taxation. In Canada these conditions are lacking. The area to be covered is large, about half the people are engaged in agriculture, and the income tax is not yet ten years old. The sales tax is therefore likely to hold its own for a long time against any direct taxation which may be proposed as a substitute.

Canada, January 24, 1925.

AUSTRALIA

I. THE DRAFT PROTOCOL AND THE WHITE AUSTRALIA POLICY

ON the merits of the draft Arbitration Protocol of Geneva, Australian public opinion has so far had no opportunity of forming a reasoned judgment. The full text of the instrument, which reached Australia only towards the end of November, has not appeared in any Australian newspaper, nor has it been published as a Parliamentary paper. On the other hand Baron Adachi's speech in support of a Japanese amendment to the proposed definition of an aggressor State in Article 6 of the first draft of the Protocol caused an immediate and hostile reaction in the Australian Press, although it is now clear that the speech was aimed at the absentee United States and not at Australia. Under the amendment, it may be remembered, a State would not have automatically become an aggressor if it had gone to war notwithstanding a finding by the Council that the question at issue was one of domestic concern for its opponent. The amendment itself, though not wholly unreasonable, regard being had to time and place, was not acceptable to the Federal Government and was eventually withdrawn. But the bad impression caused by Baron Adachi's speech remained to disturb the public mind in Australia as to the safety of her national policy under the Geneva proposals. To remove these apprehensions, which were largely due to ignorance of Australia's present rights and duties under the Covenant, Mr. Bruce,

Draft Protocol and the White Australia Policy

the Prime Minister, intervened in Parliament on October 2 with an explanatory statement of reassuring tendency. In this he set out with admirable clearness and impartiality the need of strengthening the provisions of the Covenant with respect to war, the protection which the White Australia policy at present enjoys as a matter of exclusive domestic concern, the genesis of the new proposals following on the rejection of the draft Treaty of Mutual Assistance, and the course to date of the deliberations at Geneva. Owing to breakdown of communications with Geneva, he was unable to give, except in a corrupt version, what is now the last clause in Article 10 (1). The form of words received, he explained, would require most careful consideration. He reiterated the determination of Australia as to Article 5 of the Protocol (relating to proposed additions to the Council's powers in connection with acute disputes under Article 15 of the Covenant). He thought that the present position was not seriously altered but that Article 6 (relating to the power of the Assembly when seised of an acute dispute by transfer from the Council) would require careful consideration in view of the incomplete form in which the amendment saving resort to Council or Assembly under Article 11 of the Covenant had been received in Melbourne. He stated clearly that Australia's attitude to these amendments would depend upon whether they would make her obligations more burdensome. He refrained from expressing the opinion of his Government on the Protocol itself, which was naturally reserved until the arrival of the text and the return of the Australian delegates. He promised full opportunity for Parliamentary discussion of the question of ratification by Australia, and especially emphasised the point that, until formal ratification, she was not bound by any draft to which her Delegates might have agreed. In conclusion, he referred to the now traditional demand of the Japanese for acceptance of the principle of racial equality as furnishing the motive for the amendment proposed by them at Geneva. Beyond some hostile inter-

Australia

jections from Mr. Hughes and questions from other members there was no discussion.

Although reassured as to the immediate effect of the Protocol, the public mind remained disturbed by the significance of the original Japanese intervention, which several papers characterised as a portent of future trouble in the Pacific. The motive for the intervention may well have been, as was pointed out in an able letter to the *Sydney Morning Herald* of October 25, to re-establish the prestige of the Japanese Government at home, or (not less likely) to utilise the opportunity which Geneva offered of commenting before an at least partially sympathetic international audience on the invidious position of the Japanese in California. Much the same point was taken by the *Melbourne Argus* on October 6, which, hostile as it is to the Protocol, nevertheless recognised that the cause of peace would be served by a gesture of reconciliation to Japan on the part of the United States Executive in view of the *gaucherie* of the United States Legislature over the recent Immigration Act.

But whatever Japan's motive, and however well founded her present grievance against the United States, and however legitimate her effort to raise the price offered to her by the Protocol for abandonment of her present right to go to war, her intervention at Geneva has undoubtedly created in Australia a persistent suspicion of covert designs on a cherished Australian right, a suspicion, too, which endangers calm consideration of the final text of the Protocol. To exploit this suspicion, Mr. Hughes lost little time after Mr. Bruce's statement in taking action. Alone among the politicians, and without waiting for the final text, he declared himself an enemy to the Protocol, and by wireless proclaimed what was, in effect, a Holy War against this new disguise for the Yellow Peril. Amusingly enough in one hardened in hostility to the League and all its works, it was in the Covenant, and more particularly in Article 15 (8), that he now found embedded Australia's sheet-

Draft Protocol and the White Australia Policy anchor against foreign interference with her sovereign right to control her own immigration in her own way.

The Council, his argument ran, must always act unanimously. It can never entertain the merits of a dispute concerning the White Australia policy, since the veto of the British member will always prevent the requisite preliminary finding that such dispute does *not* arise "out of matter which by international law is within the exclusive domestic jurisdiction" of Australia. Without such a finding, the Council is powerless to make any recommendation, and Japan must acquiesce. Any change, then, in the Covenant—more particularly one of which the persistent Japanese approved—can only be for the worse and as a matter of duty to Australia must be opposed. Plausible as the argument is, Mr. Hughes was, of course, speaking without the book—just as when, in the same address, he denied the existence of the Permanent Court of International Justice—for Article 15 is so loosely drawn that it is impossible to say whether the British Member is legally entitled to a vote in the contingency figured, or whether, if so entitled, he could be deemed to be a stranger to an international dispute concerning Australia, and could in practice exercise his potential veto. Although Mr. Hughes was probably quite unaware of the implication, his emphasis on the British veto raises a quite formidable objection to the independent representation of the Dominions on the League, on which he insisted so strongly at Paris. His intervention is mentioned here, however, not for any bearing on the merits of that instrument, but for the significance of the suspicion which he has begun to exploit. It is valuable as evidence of apprehension vaguely felt in Australia concerning the future of the white race in the Pacific, as well as of Australian determination not to permit outside "dictation" on matters which Australia regards as purely domestic, whatever their effect on other Powers. And even the best friends of the League must admit that if this apprehension has since yielded this is due much more to relief felt at the return

Australia

of the Conservatives to power in England, with its consequent result on the prosecution of the Singapore scheme, than to conviction—which would in fact be well founded—that the Protocol exposes the White Australia policy to no risk of foreign intervention, or, indeed, of foreign hostile criticism that is not already implicit in the Covenant of the League of Nations.

Fair-minded people who have had an opportunity of studying the text of the Protocol and relative reports of the two drafting Committees see no reason to dissent from the legal opinions received in Europe by the Australian Delegation, that the White Australia policy is not endangered by the Protocol. This being so, they do not fail to recognise, as an additional inconvenience resulting from independent Dominion membership of the League, the great responsibility resting on the Australian Parliament in connection with the question of ratification. In the view of many this question cannot be separated from that of the Singapore Base, on which Australian political opinion is by no means unanimous—witness the settled hostility of the Labour party under Mr. Charlton. At the present juncture, refusal by any of the self-governing Dominions undoubtedly involves refusal of ratification by the whole British Group, since the British Empire must—in practice—ratify as a whole or not at all. If now one or more of the self-governing Dominions which enforce the policy of Asiatic exclusion be moved by some apprehended risk to their autonomy to reject this, the League's second attempt to provide, by instalments, a workable scheme for guaranteeing international peace, the League may as well abandon its activities in this field, and confine itself to that of international co-operation in minor matters, in which it has already achieved notable successes. To Australia and her national policy the incidental result would, of course, be that neither would be better safeguarded than at present. If the question of ratification comes before the promised special session, it is reasonable to expect a favourable

Draft Protocol and the White Australia Policy

majority, unless, of course, some decisive Imperial consideration of which the Australian public has no knowledge comes to prevail. Mr. Charlton has expressed favourable views on the Protocol, and his party will probably accept his judgment for or against. As regards the existence of Imperial objections, Sir Esmé Howard's recent praise of the Protocol to an American audience is interpreted here as unlikely to have been a purely private opinion.

This is not the place to enter into a discussion of the details of the Protocol, familiar as these must be to the readers of this review, but from the Australian point of view two matters may be mentioned. First, it has only recently been realised here that ratification would import for Australia no immediate obligation beyond that of attending the projected Armaments Conference under League auspices, if and when held. As to all other provisions the coming into force of the Protocol is conditioned by many future contingencies—chief among them not merely the holding and successful issue of the projected Armaments Conference, but exact performance by signatories of obligations undertaken there. The other point has more direct reference to Australia, and concerns the proposal in Article 2 to make the present optional jurisdiction of the Permanent Court of International Justice obligatory upon ratifying Powers. On the information at present available it is conceived that this limited jurisdiction might well be accepted by Australia without endangering her present autonomy in matters of internal sovereignty. Whatever objections there may be to this jurisdiction from the point of view of the British Empire as a whole, there does not appear to be any that especially applies to Australia. Competent judges, it should be added, do not ignore the grave difficulties raised by the Protocol in respect of sanctions, as well as in regard to the obscure relationship of the obligations in the Protocol to those of the Covenant, but it is not conceived that these difficulties gain in weight when stated by Australia.

Australia

In conclusion, it is worth reporting, as evidence of the general concern in Australia for immigration, that the American Immigration Act of 1924 has already certain repercussions in Australia, where public opinion views with great disfavour any influx of the Southern Europeans whom the United States now exclude on the ground of unassimilability. Without express authority from Parliament, the Federal Government has recently made arrangements, first with the Italian and now with the Czecho-Slovakian Government, restricting the number of passports for Australia to be issued by these Governments to a maximum of 100 each per month. This is the beginning of an Australian quota system based on an administrative act.

II. GOVERNMENT ASSISTANCE TO EXPORTS

ALL indications point to an exceptionally good season in Australia for agricultural and pastoral products. Although no complete figures are yet available, the amount produced will be very large, and the prices, at least of the two staple commodities wool and wheat, promise to be high. The financial difficulties which at one time threatened owing to the pressure of a heavy export season upon the resources of the banks have been met by an arrangement between the Associated Banks and the Commonwealth Bank, whose newly appointed Board of Directors now controls the note issue.* The arrangement is that all the banks, including the Commonwealth Bank, are to share in financing the export of wool and wheat, while the Board of Directors of the Commonwealth Bank will, if necessary, assist by issuing further notes up to a maximum of £15,000,000.

Australia's prosperity depends largely upon her foreign trade, of which about half is now done with Great Britain.

* See *THE ROUND TABLE*, No. 57, December 1924, pp. 174-177.

Government Assistance to Exports

The greater part of her outward trade consists in the export of wool and wheat and when, as now, the amount for export is large and the price high, conditions are exceedingly favourable. But while the position of wool and wheat producers appears bright, the problem of marketing some other primary products has become acute. The great increase in the amount produced has made it, in effect, impossible to sell the whole at home, and difficult to sell abroad at remunerative prices. One result of this has been that the session of the Commonwealth Parliament, which ended on October 10 last, was characterised by an unusually large number of Acts aimed for the most part at giving effect to the Commonwealth Government's policy of assisting primary producers in the marketing of their products abroad.[†] No less than eleven Acts were passed which directly concerned those engaged in agricultural and pastoral industries. The policy is definitely one of government assistance rather than of government management and control. For the most part the method adopted is legislation designed to enable those engaged in agricultural and pastoral industries to create and finance their own organisations which will control the export trade and make arrangements for freights and markets. The rejection of Imperial preference, no doubt, had some effect in persuading Australian producers that their future depended largely upon their own efforts, while the political influence of the Country party helps to explain the anxiety of the Government to assist.

In 1923 the Commonwealth Government had granted bounties in the production of canned fruit and a further bounty on export, on condition that the consumers paid "fair prices" to the growers for the fruit. These bounties were the alternative to the losses which had resulted to the Government from the fruit pools organised in former years. In the early part of the session the Canned Fruit Bounty Act was passed to validate these payments and to ratify the

[†] See *THE ROUND TABLE*, No. 56, September 1924, pp. 821-2.

Australia

action of the Government in making them. The bounty was to be for one year only and it was clearly pointed out by the Prime Minister that in future this industry would have to rely upon better organisation and would receive no further financial support.

A somewhat similar position had occurred with regard to Tasmanian hops. It had been found impossible to sell at profitable prices in Australia the hops grown in 1922 and 1923, in spite of an agreement with the local brewers, who undertook to limit their consumption of imported hops to 15 per cent. of their total annual consumption. The Hop Pool Agreement Act was passed in July to authorise the Commonwealth Government to enter into an agreement with the Tasmanian Hopgrowers Pool, Ltd., whereby the Government was to advance some £25,000 at interest to the pool to be repaid within a year. It was again made clear that this was intended to be a measure of temporary relief.

During 1922 and 1923 the Government had paid a bounty on canned and frozen beef and cattle exported from Australia. The Cattle Export Bounty Act, passed in August, provided for a temporary bounty of 10s. per head on all live cattle exported for slaughter in the financial year 1924-5, but provided no bounty for frozen or canned beef. Later in the session, the Meat Industry Encouragement Act was passed to enable the formation of a meat council for the whole of Australia which should concern itself with improving the production and marketing of meat. This Act was intended to supplement legislation to be passed by the States creating similar State boards and providing financial assistance to pay the expenses of all the boards by means of a compulsory levy upon the industry. So far only Queensland, Tasmania and New South Wales have passed the necessary legislation.

Owing to the policy of settling returned soldiers and others upon irrigated areas there has been such a large production of Doradilla grapes that the resulting low prices have proved unprofitable. The Commonwealth Government, whilst claiming that the responsibility really rested

Government Assistance to Exports

with the States which had compelled settlers to grow this variety, proposed in July to meet this situation by granting a bounty to the growers in respect of last season's crop, on condition that the States concerned should bear half the cost. When this offer was refused by the States the Tariff Board was asked to investigate the matter and met in conference representatives of growers, vignerons, and distillers. The Board recommended a reduction of excise on spirit made from these grapes, and a bounty on fortified wine. To carry out the latter recommendation the Wine Export Bounty Act was passed in September. It provides for a bounty of 4s. per gallon on all fortified sweet wines exported during the next three years, if a "reasonable price" is paid to the growers of Doradilla grapes. The avowed object of this Act is an attempt to "capture the British markets" for Australian sweet wines. These have to be fortified more than Continental wines of similar character in order to carry a longer distance and are therefore subject to a higher duty in Great Britain, which will now be set off by the bounty.

The Commonwealth Government has taken no direct steps to assist in the marketing of wheat, beyond indicating that, if pools were again established in the wheat-growing States, it would sympathetically consider the question of financial assistance in the form of a guarantee, provided the two essential conditions are fulfilled of one marketing authority for the whole of Australian wheat, and one chartering authority to control freight. Nothing, however, came of this plea, but in two or three States voluntary pools organised and financed by the wheat-growers have been established.

The other two industries which attracted attention during this session were dried fruit and dairying. The Dried Fruit Advances Act, passed in August, was a temporary measure to meet a crisis owing to a large increase in production in which small growers and returned soldiers were concerned. The practice has long been customary in this industry for merchants and packers to make advances

Australia

to growers, but because of the doubtful future they were no longer willing to do so. The Act authorised the Government to make similar advances in respect of the exported part of the crop of 1925.

An attempt was made to find a more permanent solution for this and allied problems in a series of five Acts passed towards the end of the session with little opposition and singularly little discussion. Two Acts applied to dried fruits, two similar Acts to dairy produce, and one, the Export Guarantee Act, applied generally to all industries.

The first four Acts were based upon recent New Zealand legislation for meat and dairy produce. They provide for boards of control which are to organise the overseas export market for dried fruits, butter and cheese. In each case the boards, in order to meet the expenses of advertising and marketing, are to be financed by a levy upon the producers.

The Export Guarantee Act provides for the guaranteeing by the Government of advances made by banks to boards controlling produce for export, up to 80 per cent. of the market value of the produce. It also appropriates, as was promised in the Budget, not more than £500,000 for the purpose of granting assistance generally to the export and marketing of any primary produce. The Government has indicated that this money will be spent on the advice of the Board of Trade, an informal and unpaid body consisting of men prominent in the commercial world.

III. THE VICTORIAN LABOUR GOVERNMENT

IN the September number of *THE ROUND TABLE** an article in the Australian section, discussing the Victorian Elections of June 1923, remarked that it would be amusing if the vagaries of machine politics set Labour in power in spite of the inequitable distribution of seats which operates to the disadvantage of that political party. This is exactly what did happen. The elections gave Labour

* *THE ROUND TABLE*, No. 56, September 1924, p. 834.

The Victorian Labour Government

28 seats and left it the largest single party in the Assembly, though inferior in strength to the disunited anti-Labour forces, which numbered 37. Mr. Prendergast, the Labour leader, was asked to form a Government, which he did in July. This was really the first time that Labour had governed Victoria, although a Labour Government was for a few hours in office in that State some years ago. Mr. Prendergast's Ministry lasted for fourteen weeks. It passed seventeen bills, mainly non-contentious, during its tenure of office. One measure, the Compulsory Wheat Pool Marketing Bill, which passed the Assembly, was rejected by the Legislative Council. It also appointed a Commission of Inquiry into the state of the Victorian police force. But there has been an air of unreality about the whole situation. The Government was merely in power on sufferance, and it was turned out, not unexpectedly, when it proposed a Budget which would have considerably altered the incidence of taxation in Victoria. It would have exempted 60,000 persons who are now liable to income tax, at the same time increasing the rate for the larger scale incomes. On November 12 Mr. John Allan, the leader of the Country party, withdrew his support of the Labour Government and moved a no-confidence motion. On the following day Mr. Prendergast resigned and requested the Governor, Earl Stradbroke, to dissolve Parliament on the ground that the recent election had indicated definitely the electorate's mistrust of the coalition of Nationalists and Country party with which it was proposed to succeed him. However, the Governor sent for Mr. Allan and commissioned him to form a Government. This he has now done, announcing a cabinet of twelve, composed of six Nationalist and six Country party members, in which his adjutant is to be Sir Alexander Peacock, the Nationalist leader. This will be the first Government in Victoria that has been led by a Country party premier. Incidentally it will be the sixth Government which has been formed in Victoria within the last fifteen months.

Australia

IV. THE INTER-STATE LABOUR CONFERENCE

THE tenth triennial Inter-State Conference of the Australian Labour party was opened in Melbourne on October 27 last. This Conference is the supreme tribunal of the political Labour movement in Australia. It is supposed to be a deliberative and legislative body, but its functions are occasionally judicial as well. The last Conference, held in Brisbane in October 1921, had to face the possibility of a threatened split in the Australian Labour movement, but managed to tide over the difficulty. It was at this Conference that the so-called "revolutionary" change was made in the party's objective. Its deliberations were reported in *THE ROUND TABLE* in March 1922.* The present Conference was not called upon to face such burning issues. Public interest, both within and without the movement, was mainly focussed on this occasion upon two matters upon which the Conference was asked to decide. One of them was a matter of domestic concern relating to the expulsion of four prominent men from the party by the New South Wales Australian Labour party, and the subsequent appeal of the expelled to the Federal body for re-instatement. This question attracted considerable attention in New South Wales, but it became plain, as the Conference proceeded, that Labourites from other States were rather bored with this domestic quarrel and inclined to resent being made judges and dividers therein. The other matter—the question of recognising the Communists and admitting them to the party—was admittedly of vital importance to the whole Australian Labour movement. Both these questions arose at the New South Wales Conference of 1923, which was described in *THE ROUND TABLE* in September 1923† and they have been agitating the movement ever since.

* *THE ROUND TABLE*, No. 46, March 1922, pp. 409-415.

† *THE ROUND TABLE*, No. 52, September 1923, pp. 851-860.

The Inter-State Labour Conference

The re-instatement affair can be shortly summarised. The New South Wales executive had expelled four men from the party on the charge of manipulating pre-selection ballots by means of fraudulent ballot boxes. The expelled four appealed to the Federal executive, which finally recommended that the action of New South Wales should be endorsed. The Conference at first adopted this recommendation but afterwards agreed to place the whole matter in the hands of an arbitrator for immediate inquiry and final decision. Mr. Theodore, the Premier of Queensland, was allotted the thankless task of arbitrating and, to the relief of the Labour movement generally, he accepted.

The selection of Mr. Theodore is evidence of the wide and general esteem he has won in the movement. Since his return from his successful financial mission to England, he has announced his intention of relinquishing State for Federal politics, and has already secured pre-selection for a Queensland Federal electorate. It is widely expected that he will be asked to lead the Federal Labour forces if he is elected to Parliament. This would be an undoubted gain to the party, for its leadership has been stolid and unimaginative since the defection of Mr. W. M. Hughes. Mr. Theodore is one of the few striking figures among present-day Australian politicians. With characteristic vigour he began his unenviable task of arbitration at once and, after inquiry, delivered his verdict in support of the New South Wales executive. The affair has occasioned much more stir in the ranks of Labour than its importance warranted.

The Conference declared its attitude to the Communists in no uncertain way. For the last three months Labour Governments have been in power in every State but New South Wales, and the tactics of the Communists, both as a party and as individuals, have proved a constant embarrassment to the Labour leaders. Placed on the Treasury benches very largely by the vote of middle class moderates, Labour Ministers are confronted on every platform with charges of being in league with Moscow and its policy, even while they

Australia

are smarting under the openly expressed contempt of the Communists for Labour leaders as being "hangers on of the bourgeoisie." And in New South Wales, where the Communists are strongest and where Labour is in opposition, its leader, Mr. Lang, has experienced the same embarrassment and spends a good deal of time endeavouring to convince the public of his party's complete detachment from Communist organisations and Communist aims.

It was, therefore, not surprising that several of the State branches had asked the Conference for a declaration of hostility to the Communists. And Mr. Theodore, the only Premier who attended as a delegate, is credited with having made his pilgrimage to Melbourne specifically to disconcert the hopes of the extreme "Reds." He moved an unequivocal resolution that "no member of the Communist party be admitted to the Labour party." What followed could be described as a chorus rather than a debate. Speaker after speaker cursed the Communists with bell, book and candle. They were "damned by results," for the party was strongest in New South Wales where the workers lost nearly every industrial dispute. They were "not emancipators but disruptors." Mr. Theodore maintained "that the Labour movement was essentially democratic, and it must not be assumed that it was necessary to resort to violence or revolution, or to set up a dictatorship of the proletariat." Still another speaker plaintively told the Conference that "every time he mounted a platform he had to explain away Communistic propaganda." The Conference was so certain of itself on this matter that it would not even hear the Communist leaders who were in attendance to put their case. The rout of the "Reds" was complete. Mr. Theodore's motion was amended to read: "that this Conference declares itself against the affiliation of Communists with the Australian Labour party and refuses the admission of Communists to the Labour movement," and this was carried by an overwhelming majority. Further, a direction to this effect was to be sent to all the States.

The Inter-State Labour Conference

It will be observed that the amendment out-Theodores Theodore. Not only members of the Communist party, but simply "Communists" are disbarred from the Labour movement. Labour leaders may now set about their lawful occasions undeterred by the official presence within their own ranks of what one of their number describes as "tenth-rate Lenins and toy Trotskys." This is certainly a change of mood from that of the 1921 Brisbane Conference, at which the politicans and moderates, who preferred the old policy of opportunism to spectacular revolutionary commitments, were in a slight minority. For the rest, the work of the Conference was either confined to considerations of party machinery, or to suggested amendments of the fighting platform. The 1921 objective was not changed, several anti-war pronouncements were made, immigration policies were criticised, and a scheme of motherhood endowment based on a capital levy was condemned as impracticable. Two interesting machinery motions were passed, one defining the powers of the Federal executive of the Australian Labour party between Conferences, in which this body was declared not competent to hear appeals from State branches, or to intervene in State affairs, unless requested by a majority of members in the State branch affected; the other forbidding State branches to require candidates for any office to sign undated resignations since the rules of the Australian Labour party were adequate to control its representatives. Finally, as reflecting the trend of Labour thought in international affairs, the following motion is worthy of notice: "That the Australian Labour party convene a Pan-Pacific Conference, in Japan preferably, to promote a closer understanding of the Labour movements concerned." How far this resolution is merely the enshrinement of a pious hope remains to be seen.

Australia, December 22, 1924.

SOUTH AFRICA

PROVINCIAL FINANCE AND EDUCATION

A NOTHER chapter in the loose and rambling story of our provincial experiment has been opened. How it will end no man can tell as yet. There are many who prophesy its ending in defeat and confusion, as other chapters have ended, while there are others who declare that this is the last chapter of the book.

In previous issues of *THE ROUND TABLE* the vexed story of the financial and constitutional relations between Union and provinces has been sketched from the point where the report of the Baxter Commission opened the previous chapter.* This Commission (the Provincial Finances Commission) reported in May 1923. Its recommendations and the conflicts to which they gave rise have already been discussed in *THE ROUND TABLE*,† and the story has been carried down to the date of the opening of the first session of Parliament under the Hertzog Government‡ on July 25, 1924. During the short session Parliament confined itself to immediately necessary business, and the Government announced its intention of leaving over the whole question of provincial finance until the following session in order that negotiations with the provinces might be undertaken

* *THE ROUND TABLE*, No. 52, September 1923; Nos. 54, 55 and 56, March, June, September 1924.

† *THE ROUND TABLE*, No. 52, September 1923.

‡ *THE ROUND TABLE*, No. 56, September 1924.

Provincial Finance and Education

during the recess. Even so the Government showed at this early date unmistakable nervousness about the matter. Unrestrained criticism of the Baxter Report had served them well in the preceding election, but had involved them, as a Government, in somewhat awkward commitments. They were not ready with an alternative to the recommendations of the report. On the one hand many of the leaders were already deeply committed to the support of a provincial system where they had "Pact" majorities in three out of the four Provincial Councils. On the other hand, few were ready to declare in favour of a policy of general unification, though opinion might be moving in that direction. Yet the financial situation was grave, and there was little time for delay. The Transvaal had a deficit for the year (1923-4) of approximately £300,000, and the Cape one of about £400,000, while the accumulated deficits of the Cape were mounting up towards £2,000,000. In each province the Provincial Council met and virtually did nothing, leaving the Union Government to find a way out.

Accordingly a Conference was held in Durban in November 1924 between the Union Ministers of Finance and Education on the one hand and the representatives of the provincial administrations on the other. The Conference had before it the following three reports of Commissions as a basis of discussion :—

1. The Provincial Finances Commission, the main recommendation of which was that the subsidy to be paid to the provinces by the Union Government should be calculated on the basis of a capitation grant for the purposes of primary and secondary education.
2. The Education Administration Commission (First Report), which defined the limits of compulsory education and of the financial responsibility of the Union Government for primary and secondary education within and beyond those limits.*
3. The Education Administration Commission (Second Report), which dealt with administrative overlapping and confusion in the

* THE ROUND TABLE, No. 54, March 1924, pp. 407-411.

South Africa

spheres of technical and industrial training, and of provision for indigent and defective children. Its main recommendation was in favour of the erection of a Union Board of Education to exercise a direct co-ordinating control over all forms of State activity in education throughout the country.*

The difference between the destructive opportunism of an Opposition and the constructive responsibilities of a Government is well illustrated in the outcome of the Conference. For, though no detailed report of its findings has been published, it was announced that the main recommendation of the Baxter Report had been accepted, with some modification. Subsidy was to be calculated on the basis of a capitation grant which for primary and secondary education would be :—in the Cape and Natal, £14 ; in the Orange Free State, £15 8s., and in the Transvaal, £16 7s. 6d. The further concession was granted to the first three that 30,000 of their pupils should in each case rank for the higher rate of grant at the Transvaal figure, £16 7s. 6d. So far as can be gathered, other divisions of the educational service, such as the training of teachers, were to be paid for at the rate of the capitation figure suggested by the Baxter Report. To what extent the Union Government will follow the recommendations of the Education Administration Commission, in determining what pupils shall rank for subsidy, what differences shall be observed as between compulsory and non-compulsory education, and whether an attempt shall be made to keep separate accounts for primary and secondary education respectively, is not yet clear. That some such control will have to be exercised by the Union Government is certain and this may involve legislation by the provinces on lines which, to a considerable extent, the Union Government will dictate. The political consequences of the "Pact's" action in thus eating its own words and accepting, as a Government, what it had denounced as an Opposition must be considered elsewhere. The phenomenon is not

* *THE ROUND TABLE*, No. 56, September, 1924, pp. 842-3.

Provincial Finance and Education

so singular either in South Africa or out of it as to occasion much more than a shrug of the shoulders from the common citizen and an outburst of appropriate party thunder from the politicians of the other side. It will be easy for the Government to claim that they have rejected those sections of the Baxter Report such as the recommendation of a tax on real property, which were most bitterly denounced and that they have merely taken what suited them to use for their own purposes.

Of much more importance than the immediate party skirmishes to which the settlement may give rise are its more remote financial consequences. Provincial subsidy for the current year, calculated on the old basis, is about £4,500,000. For 1925-6 it is not likely to be less than £5,500,000. In addition to this extra million, the Union Treasury has also to find money for dealing with existing provincial deficits. Some will return to the Exchequer in the form of interest and redemption on loans, and against some can be set a corresponding reduction in provincial taxation. For though, here again, no details have been published, it is certain that some restriction will be imposed by Parliament upon existing powers of taxation by the provinces, though not all of the Baxter Commission's recommendations in this regard may be adopted.

Yet it seems impossible to avoid a considerable increase in expenditure, even after these compensating factors have been allowed for. For the provinces are not the only authorities that spend upon education. The Union Education Department is concerned with higher education (Universities) and with child welfare administration, and its scope in technical and industrial education may well be increased as a result of certain decisions taken at Durban. Its estimates for the coming year can hardly be less than £700,000, and they may easily be more. Thus Parliament will be asked to set aside for educational purposes a sum that will not fall much short of £6½ million, not very much less than *one-fourth* of the total revenue of the

South Africa

country. It will be interesting to follow the debates that will then arise, for this will be the first occasion on which an education vote will be presented as a whole. Yet even that is not all, for the provinces will still have to find a considerable amount for education out of their own resources or effect some sweeping economies. In all the provinces except the Cape, proposals are coming forward for economising on teachers' salaries. These proposals are likely to take effect, for the teachers themselves, by opposing the late Government's plan for a uniform scale of salaries for the whole country, have placed themselves at the mercy of the provinces. As the need for economy is urgent, and three of the four provinces are in the hands of "Pact" majorities which have no wish to embarrass the Government, the reduction is likely to come about, except in the Cape, that is, where the Baxter Commission itself reported that the scales were not unreasonably high.

It would be rash at this stage to attempt any forecast of the probable constitutional effects of the new system. The details of the proposals are not yet known, still less have they been laid before Parliament. But it seems clear that Parliament can hardly vote away nearly one-fourth of the revenue for education and still be satisfied with the slender measure of control that it can exercise at present. Any increase of such control can only be at the expense of the Provincial Councils. With their taxing powers still further restricted, their financial scope severely limited by Parliament, and their revenues raised only to a small extent by their own efforts, they will be hard put to it to maintain the showy pretension to quasi-Parliamentary authority, which they have hitherto assumed. Their proceedings, as distinct from those of the administrations, must become increasingly unreal and their prestige, such as it is, must wane. Whether the powers thus lopped off will pass in effect to the provincial administrations, to be exercised by them through what may be called informal negotiation, or to the Union Government, treating the provincial

Provincial Finance and Education

administrations more and more as its local agents, remains to be seen. The latter development is more likely, for the Government, pricked by criticism that will be both certain and searching, and tingling with a premonitory smart in its Achilles heel, finance, will be disposed to shorten very considerably the provincial rein. That probability lends interest to proposals for the re-casting of the whole administration of education on the basis of thoroughgoing union. Such proposals are put forward in the second report of the Education Administration Commission. Their fate at the Durban Conference was less fortunate than that of the financial proposals of the Baxter Report. But they have equal force of logic behind them, and the weak *pis aller* which has been adopted as a substitute will only deepen confusion and render the logic of unification all the more cogent and clear.

The main recommendation of the Education Administration in its second report was that a Union Board of Education should be instituted to exercise authoritative and co-ordinating control over all educational policy in the Union, as well as to adjust educational policy and practice to the economic needs and conditions of the people. This recommendation followed upon the setting forth of a mass of overwhelming evidence to show how waste, confusion and overlapping had arisen in educational administration through the competing and unco-ordinated action of so many authorities. The evidence further showed grave defects in the adjustment of educational provision, in quality and quantity, to the real needs of the people. The Commission, after considering and rejecting every other possible course, reported in favour of a policy of general and thoroughgoing co-ordination through the agency of a Union Board.

A disinterested expression of opinion on this main issue was, perhaps, hardly to be expected at the Durban Conference. Apparently there was no unanimity, and even a modified proposal by the Minister of Education that the

South Africa

Union Department of Education should take over from the provinces all technical, industrial and vocational institutions was not accepted. The Minister therefore fell back on the unheroic expedient of expressing willingness, under his present powers, to take over any such institutions as the provinces might care to offer! The principle on which he justified this action rested upon a sharp distinction drawn by him between "vocational" and "cultural" education. The distinction itself is becoming increasingly dubious as the true economic relationships of education become more clear. But to use such a distinction in such a country as justifying a complete separation of administrative authorities for the two types is merely to multiply confusion. Such a procedure is in conflict with all modern experience, involving, as it does, a blunder in principle which England corrected more than twenty years ago when the Board of Education was instituted and which the United States, in recent legislation on vocational training, has scrupulously avoided. The probable educational and economic consequences of the proceeding must be discussed in a later issue. They are of peculiar importance in a country like this, where the Western type of civilisation must fight to maintain its foothold, and where the weapons of the spirit and of economic power and capacity must be used in close conjunction and with the most single-minded concentration of purpose. The issues, in this regard, are so far-reaching that they must be reserved for fuller treatment later.

Here we may briefly indicate the bearing of the decision upon probable financial and constitutional developments in the immediate future.

In the first place, the Union Department of Education has definitely rejected the opportunity to justify its name and become the real and authoritative agent of a national policy in education. Instead, it prefers to mark out a small independent sphere of its own, leaving the mass of primary

Provincial Finance and Education

and secondary education to the provinces. Thus it becomes more than ever just one of five, not really controlling the other four in any sense and depending for its own scope upon the amount of space which is left to it in the general jostling.

Secondly, educational principle has been thrown overboard. It is already becoming clear that any transfer of institutions from province to Union which may take place will be due to financial reasons, whatever pedagogic justification may be alleged. For technical and industrial schools are costly and the ordinary rate of Union capitation grant is quite inadequate for their maintenance. Some provinces will hand them over willingly simply as bad business propositions, others more reluctantly and against their educational consciences but driven to it by insistent demands for economy. Yet such transfers will involve absurdities like that of grading as "higher" education—because passing to Union—an institution with a two years' post-primary course, while regarding as "lower" education a High School with a four years' post-primary course because it remains with the province!

A third result must inevitably be increased expenditure, not entirely set off by economies on the provincial side of the account. As the Union Department has specifically emphasised its detachment from the so-called "cultural" education of the primary and secondary schools (which the provinces keep) the chances of co-ordinated central control in the educational sense are diminished. But as expenditure increases there must be control of some kind and the only body that is likely to be strong enough to exercise it is the Treasury. The Treasury, when it acts, will act under duress. But not only is there no national policy in education, there is no authority in a position to formulate and execute such a policy and therefore none to guide the Treasury with well-informed and authoritative advice. England's experience with the Geddes Committee in a situation where there was such an authority may assist the

South Africa

reader to understand what may happen here, where there is none.

The immediate future, therefore, must be viewed with misgiving, for confusion will almost certainly deepen while expenditure increases. But perhaps in that very probability lies the chief hope, for thereby the fundamental constitutional weakness may come to be fully revealed so that it may be remedied. The timorous attitude of the Union authorities at Durban was, no doubt, due to fears of friction with Provincial Councils, three of them, be it remembered, under the control of "Pact" majorities. That nettle they are not yet prepared to grasp. But the Durban decision does mean that any prospects of the conversion of Union into a Federation are definitely at an end. Provincial dependence upon Union has been increased and Union control of provincial policy and expenditure must increase, too, for Parliament has to be satisfied. Even the present Parliament is not likely to vote £5½ million to the provinces without demanding a much greater measure of control than it can exercise at present. The result must be to give an impetus to that decline in prestige of Provincial Councils which, for various reasons, has long been apparent. Such authority and independence as the Councils lose will not pass to the Administrators except perhaps temporarily. More and more the Administrator looks not to his own Provincial Council but to the Union Government for a way out of his difficulties. He is himself a servant of the Union Government, appointed for a period of five years, irremovable by any vote of the Provincial Council, and under no obligation to work through a homogeneous "Cabinet." But Parliament will not bleed the Provincial Councils to enrich him. He is destined to become more and more an official like a French Prefect, and less and less a *soi-disant* Prime Minister in his own province. Hence the demand that has gone up from certain Pact leaders that all Administrators should resign upon the accession to power of a new Government has in it more

Provincial Finance and Education

than a very natural desire for the maximum of spoils to divide among the faithful. It expresses a real political necessity under the growing pressure of financial exigencies. And these financial exigencies arise mainly from the increasing inability of the provinces to finance their obligations in education. Thus, by the lever of finance, the development of education promises to bring about a constitutional change which is really the completion of the work of 1910. For in that work, education was, for the time being, left out, and logic has been working for its revenge ever since.

As for the economic and social relationships of educational policy which are also fully discussed in the Report of the Education Commission, they will be brought increasingly into prominence as the new Ministry of Labour sets to work. But this topic opens up a vast prospect, full of vital possibilities for the future, of a European State at this end of the African Continent, a prospect far too wide for anything less than an article to itself.

South Africa, January 15, 1925.

"LORD DE VILLIERS AND HIS TIMES."

(Constable & Co., 1925.)

An interesting and valuable contribution to the study of South African history has just been made by Prof. Eric A. Walker, Professor of History in the University of Cape Town, in his biography of the late Lord de Villiers, the first Chief Justice of the Union. The career of Lord de Villiers, better known to most South Africans as Sir Henry de Villiers, covered the whole of the modern period of the country's evolution during which the discoveries, first of the Kimberley diamond mines and then of the Witwatersrand gold-fields, brought it from the pastoral simplicity of an earlier day into its present comparatively advanced stage of development. In all the political events which accompanied the process de Villiers played his part.

South Africa

Born, in a frugal home, at the Paarl in 1842, de Villiers was educated at Utrecht, at Berlin and in London, and was called to the Bar in 1865. He returned to the Cape and won instant success in the legal profession, was Attorney-General in the Molteno Ministry, the first to hold office in the old Colony of the Cape of Good Hope after it received responsible Government in 1872, and was appointed Chief Justice of the Colony in 1873. Thereafter his life's work was first and chiefly that of a great lawyer, and secondarily that of a statesman who faithfully cherished the ideal of South African federation. In the first capacity he was enabled, by the great prestige which he enjoyed in his profession, by his grasp of the essentials of justice, and by the respect paid to the long series of his judgments not only in his own Court but in the Courts of the other South African States as well, to mould what had been a medley of the Roman, Dutch and English systems into a consistent body of law, and to prevent serious divergencies in the development of legal theory and practice in the different South African States. He lived to be the first Dominion Judge to be made a member of the Judicial Committee of the Privy Council, to be created a peer of the United Kingdom, and to preside as Chief Justice over the Appellate Division of the Supreme Court of the Union of South Africa.

As Chief Justice of the old Colony of the Cape of Good Hope, he was *ex officio* President of the Legislative Council, the Upper House of the Legislature of that colony. He was thus kept in closer touch with politics than judges usually are ; and was provided with the opportunity of working for the achievement of his ideal of South African federation, an object which, given sufficient sympathy and co-operation between the British and Dutch populations, he seems to have regarded as compatible with the continued existence of separate sovereignties in South Africa. At different dates he entertained the idea of leaving the Bench in order to take an active part in political affairs, though he never actually did so. He more than once considered the question of standing for the Presidency of the Orange Free State, and once for that of the South African Republic. He was a friend of Rhodes in his earlier days, recognising in him a great force working for federation, and would have been willing in 1893 to accept a suggestion of Rhodes, which, however, came to nothing, that he should himself form a Cape Ministry with Rhodes serving under him without portfolio ; but he quarrelled with him after the Raid in January, 1896, and thereafter became his political enemy. In the disputes which led to the South African War of 1899-1902, and during the struggle itself, his sympathies were all with his Dutch fellow-countrymen in the two Republics, whom he believed to be the victims of injustice, and he strove in vain for a peace which should recognise their independence. But

Provincial Finance and Education

the realisation of his political ideal was to come later on when he was called upon to preside over the Convention of 1908-09, by which the Union of South Africa was to be achieved; and he was to die in 1914 as acting Governor-General of the Union.

While we must not be taken as committing ourselves to invariable agreement either with de Villiers' opinions or with his biographer's estimates of their soundness and of the motives and character of those who differed from his hero, we can confidently recommend Professor Walker's book to the perusal of students of South African affairs. It tells the story of this long and critical period from the standpoint of a sterling and vigorous personality who, though not in the foreground of political controversy, was in close contact with the protagonists on both sides, and who himself, directly and indirectly, made no small contribution to the crowning achievement of Union.

NEW ZEALAND

I. CURRENT POLITICS

THE third session of the twenty-first Parliament of New Zealand closed in November with a painfully barren record of achievement. Owing to the absence of an independent working majority, and his consequent dependence on the votes of several unpledged Liberals, Mr. Massey has been unable to pursue any definite programme of contentious legislation, and all parties have been content to mark time. The result has been that no measures of policy of first class importance have been submitted for consideration, possibly through inability to ensure their passage in the present state of party representation in the House, and possibly, as unkind critics have suggested, because the Government has no definite policy to submit. In this respect New Zealand does not greatly differ from other countries at the present time, and it may also be fairly contended that for the time being sound administration is more important than legislative innovation. Be that as it may, the session has been dull and devoid of excitement. The expectation that the present Parliament would run its full course seems in a fair way to be realised.

Apart from a further extension of the control system of marketing primary products, referred to later, the work of the session has been confined mainly to making provision for the financial needs of the country, together

Current Politics

with a number of useful but minor amendments to existing legislation. A notable technical statute has been the Land Transfer (Compulsory Registration of Titles) Act, by virtue of which the whole of the land of the Dominion will ultimately be brought under the system of compulsory registration and State guarantee of title, thus enormously simplifying the technique of conveyancing and making land a more mobile asset. This system, hitherto optional, is now being extended to embrace such land as has hitherto lain outside its scope. Its significance may be judged from the following passage from a distinguished European economist :

Completely to assimilate landed to personal property, and thus indicate the limit of evolution, there remained one step to take, the mobilisation of land ; that is, the possibility for every individual not only to possess land, but also to dispose of it with the same facility as any movable object. This last step has been taken in a new country—Australia—in the celebrated Torrens system, which transforms the right of property in land into simple entries on a register, and thus permits the proprietor, as it were, to put his land in his pocketbook in the form of a sheet of paper, and to transfer it from one person to another with the same facility as a bill of exchange. Efforts have already been made for some time to introduce this system into our old European countries. It is probable that the logic of facts and the natural course of evolution will make it triumph everywhere.*

Much projected labour legislation, and also two Bills dealing somewhat insincerely and sketchily with the problem of rural credit were dropped ; while the customary spectacle was witnessed of great waste of time in the initial stages of the session and a frenzied rush to pass indispensable legislation at the end.

The country in general and Parliament in particular seems rather bored with politics at the present time, and disinclined to take matters seriously. Such, at all events, is the impression made upon disinterested observers by a

* Gide : *Cours d'Economie Politique*, Tom. II., p. 209.

New Zealand

perusal of the reports of the proceedings of the House. The Premier has not been well during the year, and is now a rather tired and irritable man, as his attitude in the House has shown this session. Much of the repartee exchanged among the party leaders, and for that matter among members generally across the floor, has been of the puerile nature one associates with third form school boys, and has deepened the impression of lack of dignity as a characteristic of our public life. There have, however, been no exciting or sensational incidents. Though the Premier has not been able to rely upon an independent majority, he has conducted his session with considerable political astuteness, and contrived so to arrange his business that on most important issues he has been able to rely upon a substantial following from one or other of the Opposition groups. His Imperial and foreign policy is invariably supported by the Liberals, while his incursions into State Socialism have been solidly if unostentatiously supported by the Labour party, which is quite opportunist in policy, and ready to accept any approximation to its socialistic and equalitarian objectives from any quarter obliging enough to deliver the goods. In other tight corners the Premier has been able to extricate himself from difficulty by the simple expedient of declaring the issue to be a non-party matter.

Public extravagance is still the bane of our politics. While economy in the abstract receives a certain measure of lip homage, no effective opposition is offered by any party to Government borrowing and expenditure which in times like the present it might be prudent finance to curtail. The clearing of the economic skies generally, coupled with the accumulation of embarrassingly large banking balances in London and excellent prospects for wool and other products are tending to eliminate from the political mind a proper sense of financial caution, at no time strongly developed in a young country which discounts the future. The programme of national and local

Current Politics

borrowing proceeds apace, and the Government is obligingly complaisant to forms of expenditure that even assured prosperity would hardly warrant. It has agreed in principle, for instance, to accord some measure of financial support to two agricultural and two forestry schools in connection with the University Colleges, though it is obvious that even for a population several times as great as ours one institution of each kind would be ample ; and that apart altogether from the question of cost one well-equipped and fully staffed school would be more efficient than several smaller ones. Parochialism and provincialism are defects which are very costly to the community. In the matter of increasing our national capital commitments the business community has probably a sounder sense of caution than Parliament.

While in view of the arrest of public works development during the war it was evident that some expansion of borrowing for this purpose would be necessary, it is felt in responsible business circles that the borrowing policy might now with advantage be tapered off, or at all events reduced to more modest dimensions. It is therefore surprising to find that, in addition to a special loan of £1,125,000 from the Bank of New Zealand, the Government has taken authority in its finance legislation to borrow a further £7,275,000. Against this, however, it is but fair to note that considerable revenue, amounting since 1921 to £4,350,000 has been applied to capital purposes, chiefly public works ; while some accumulated revenue and capital repayments have been applied to debt reduction. As far as loans for public works, such as railway improvement, roads, and hydro-electric developments are concerned, unless there is to be a marked curtailment of developmental expenditure during the next few years, fairly steady borrowing under this heading may be anticipated.

The feeling of regret with which the departure of the Governor-General, Lord Jellicoe, has been received all

New Zealand

over New Zealand, and in every class of the community, is probably without precedent in the history of the Dominion. No representative of His Majesty within living memory has made so deep an appeal to the population of this country, or left behind him a more distinct mark of his personality. The expressions of regret, official and unofficial, with which a departing Governor is greeted, are apt to be, if not insincere, at least conventional, but that cannot be regarded as true in the present instance. The position which Lord Jellicoe has made for himself in our community has been well expressed by one of our leading journals in the following striking tribute. The *New Zealand Herald*, under the significant title "Vice-Regal Service," said on October 16, 1924 :

Viscount Jellicoe has exemplified every theoretical virtue in a Governor-General. He has, with Lady Jellicoe, sacrificed personal pleasure to public duty, unless it be true, as in their case is not impossible, that personal pleasure has been found in public duty. Becoming acquainted as early as possible with the country and its people, they have won a sure place in popular affection, and constrained a deep respect from all classes in the community. Without shadow of doubt, New Zealand has seen the office of Governor-General magnified as involving national service. In the light of so signal an example, the Dominion's appreciation of the office has grown.

And again on November 4, returning to the same theme, it said :

He has accounted duty a greater thing than pride of place. It is unthinkable that the difficult task of a Governor-General could have been better performed than by him. There has been never a flaw in his service. The dignity of the office has been maintained with the tact that blends wisdom with courtesy. The Ministers of the Crown have found in him a sympathy full of understanding. Never officious, far from self-assertive, he has made the Governor-Governorship what it was really designed to be, a silken bond of Empire proudly worn by a daughter of the Mother Country. Such service may a wise and good man render to the commonwealth.

The claim upon popular affection that is most strikingly acknowled-

Current Politics

I edged in all expressions of regret at Lord Jellicoe's impending departure rests, however, not upon his tact in administrative affairs, but upon his personal exercise of a fine influence in the community. He could not have been so excellent a Governor-General had he not proved himself so splendid a man.

This emphasis upon the noble personality and high ideal of service of our departing Governor-General runs through all the Press and private references to Lord Jellicoe. It is perhaps to be regretted that the limitations imposed on him by his official position have rendered it constitutionally impossible to awaken the people of this country from their lethargic attitude towards defence in general and naval defence in particular. However that may be, Lord Jellicoe stands *primus inter pares* in a distinguished line of men who in the exalted station of Crown representative have left an indelible mark upon our plastic and impressionable community's life at the Antipodes. The cordiality and enthusiasm attending the actual "send-off" to Lord and Lady Jellicoe have been without precedent in our history. The Imperial significance of the career of our late Governor-General can hardly be better stated than it was in the *New Zealand Times* of November 27:

Happy is the monarch who has as his Viceroy a man so great, yet so essentially modest and unassuming as Lord Jellicoe—so tactful, so human, so many-sided, so thoroughly all-round as a man and a sportsman, that he finds no difficulty whatever in being, in the very best meaning of the phrase, "All things to all men." Such a Viceroy, himself of the highest proved loyalty and devotion, cannot but make for the highest loyalty and devotion in others. From first to last throughout his stay amongst us—a stay more than four years long, but all too short—the constant slogan of Lord Jellicoe has been "Loyalty to King, country and Empire." And the seeds of loyalty and devotion that he has sown among us have, assuredly, fallen on good ground.

New Zealand

II. EXPORT CONTROL

LAST session has witnessed an extension of the control system of marketing to two additional staple products of the Dominion, of a minor nature, honey and fruit, Acts to control the marketing and distribution of these commodities abroad having been passed to become operative, as was the case with the Dairy Export Control, upon ratification by a majority of the primary producers directly concerned. This peculiar system of State created cartels or selling syndicates is the most recent manifestation of the "Socialistic" trend of our legislation in so far as it affects our economic activities, and, while it is yet too soon to make any definite pronouncement as to its value, the indications are encouraging.

New Zealand is vitally dependent for its continued prosperity, almost for its economic existence, upon maintaining and extending its markets for primary products in face of world competition, which not only is increasing in volume, but works under less of a handicap in the way of distance from the principal world markets than we do. We are also almost entirely dependent upon the policy and goodwill of the shipping lines that serve the Dominion and carry away its products. Moreover, it is to our interest that the system of marketing should be as uniform as possible, and that brands and grades should be uniform and dependable. It is, of course, recognised by sober opinion here that our control policy can have but a minor influence on the markets, owing to the fact that our proportion of the supply is so small; but, while much is expected from these Control Boards in the way of stabilisation of supply and price, still more is hoped for in the standardisation of brands, the raising of quality—a point on which public opinion here is fully alive—the cheapening

Export Control

of transport, commercial publicity, and the extension of markets.

The work accomplished by the Board established under the Meat Export Control Act of 1921-22 has been satisfactory. For the season 1922-23 it claims to have succeeded in obtaining freight reductions of the estimated value of £575,000 to the primary producers concerned; while attention has also been given to such matters as refrigerating charges, marking of parcels, grading of meat, loading and discharge of produce, and regulation of shipments. Uniformity of standard and a rise of quality are being secured, and shipments are adjusted to market requirements. In addition, practical results have already accrued from the activities of the Board in advertising, improving retail markets in Britain, and the investigation of foreign markets. It is hoped that similar results will, in due course, be disclosed in the case of other products, such as butter, cheese, honey and fruit, subjected to this form of compulsory market control.

Too much is not expected from this machinery. It is fully realised that, owing to the relatively small contribution of the Dominion to aggregate market supplies, we are not strong enough, even did we so desire, to assert any domination over the British or any other external market in respect of our primary products. It is, however, felt that the system when in full working order, may obtain the usual benefits that accrue from large scale operations of all kinds, and that it will reduce the margin, in many cases inexplicable at first sight, between what the producer gets and what the ultimate consumer is called upon to pay. The retail price of meat is at such a level in Britain at the present time as to be engaging the serious attention of the Home Government, as it did that of its predecessor in office. This is a matter that requires, and will doubtless receive, the most searching and competent investigation. It should, however, be generally known, that even within the field of its control, the Meat

New Zealand

Producers' Board is doing nothing whatever to restrict or limit supplies on the home market, its activities being confined to ensuring the despatch of cargoes from here so as to secure uniformity of supply.

Of the effects of the other Control Boards, it is too early to speak. We are, however, justified in looking for similar results from them ; and the net effect should be to cheapen distribution with satisfactory results to both producer and consumer. It must, however, be borne in mind that there are limits, based on the technical conditions of production and demand, to the applicability of the control system, and already deprecatory voices say that we have gone far enough, at least for the present, with this form of experimental marketing. Some control experiments in Australia have not had the success anticipated ; and there is always the danger, which cannot be lightly dismissed as academic, of too close an association between the political activities of the country and its economic organisation. To allow Parliament compulsorily to dictate to the producers of the country how and under what conditions they shall market their produce is a precedent fraught with great danger, and subject to possibilities of extension in disconcerting ways that are not obvious on the surface. It is true that in the case of honey, fruit and dairy produce, the system depends for its application on a favourable poll of the interested producers ; but though in such conditions, an important safeguard undoubtedly exists, to dictate even to a minority of producers how they shall carry on their marketing is a course which requires strong grounds of public expediency or urgency for its justification.

The Rural Credit Problem

III. THE RURAL CREDIT PROBLEM

THE reaction from the high prices of the boom period and the cessation generally of an inflationist policy have had their repercussion in a fall in rural land values and a difficulty in obtaining farming credit to an amount at all proportionate to current valuations of farming land. In consequence there has been, as is but natural in a community consisting largely of mortgaged primary producers and their dependents, criticism of existing credit institutions, a dissatisfaction with the credit machinery which has served the rural population for the past generation, and an effort to institute new machinery for the raising and circulation of farming capital.

Though our secondary industries have been developed to an extraordinary extent for so young, remote and small a country—and, be it noted, at enormous expense to the taxpayer—New Zealand is still in essence an outlying and partly improved farm, worked in comparatively small areas and susceptible of much more intensive utilisation than has been the case in the past. The demand for capital is therefore constant and growing, and few farmers are independent of some credit institution. This demand is of a twofold nature ; long term supplies of capital with which to purchase land and make permanent improvements, and short term credits with which to supply working capital for such things as additions to stock, wages, manures and the ordinary operating expenses of the mixed farm. Though in any individual case it may be a matter for nice discrimination whether a particular credit demand is appropriately met by long term or short term capital, the distinction is plain, is well understood by the farmers themselves, and is reflected in the different types of credit institution in existence. To the farmer, indeed, short

New Zealand

period credit is of the greatest importance, since his products are seasonal in character and his receipts come in during only part of the year ; whereas his outgoings, like those of other people, are spread over the whole twelve months. It is significant, further, that the great majority of the small farmers of the Dominion, to whom credit is vital, work on freehold land.

The sources of long term credit in New Zealand during the last thirty years may be regarded as three. There is first the private lender of money upon land, broad acres being considered by many investors as a particularly eligible type of security, as indeed they are. In an almost purely farming country like New Zealand, moreover, satisfactory industrial securities are not easy to get. Under the heading of private lenders upon land, it would seem logical to include not only private individuals and their trust estates, whose contribution to farm mortgages must be proportionately small, but such institutions as the Public Trust Office, the various insurance offices, including the Government Life Insurance Department, deposit, mortgage and investment companies, and other institutions and authorities, such as Sinking Fund Commissioners, which prefer long term stable investments at a moderate rate of interest. Those have undoubtedly been the chief sources of farm mortgage money in the last generation.

In addition, there has been, since 1894, a Government department created expressly for the purpose of lending money on mortgage of land, chiefly to small farmers, at a moderate rate of interest. This department, originally known as the Government Advances to Settlers Department, was the logical corollary of the small holdings and closer settlement movement of the 'nineties in the last century. It was designed partly to lower the rate of interest on mortgage money by adding materially to the available supply, and partly to supply working capital for improvements, implements, and the purchase of land and stock. Inaugurated in 1894, the system was consolidated and

The Rural Credit Problem

amended in 1913. Up to March 31, 1923, loans amounting to £22,197,865 had been authorised to 56,892 applicants, the average rural advance being £408, and the total advances outstanding at March 31, 1923, were £6,990,292. Loans are granted on freehold and certain types of public or semi-public leasehold lands, up to a limit of three-quarters of the owner's estimated interest in the property. They are all on the instalment system, self-liquidating over a maximum period of 36½ years, and carry interest at 4½ per cent. with 1 per cent. sinking fund. Applications may be for amounts of from £25 to £3,500, with a preference to loans not exceeding £500. It will be obvious from this description that the system is somewhat limited in its application, covers but a small area of the field, and gives no assistance in so far as the provision of temporary working capital is concerned.

Other forms of credit, if they can be so called, are found in the facilities which enable prospective freeholders to take the first step towards establishing themselves on the land as independent producers.

There is no gulf, as in England, between the farm labourer and the farmer in New Zealand, so that a man with sufficient energy and only the personal capital of industry and integrity can usually in time establish himself as a farmer. This can be done, for instance, by a lease with a compulsory or optional right of purchase at a specified amount on the expiry of the tenancy or, what amounts virtually to the same thing, by a purchase from the previous owner largely on credit, the balance of purchase money being usually secured by a second mortgage on the land. In the dairy farming districts the practice of share milking, by which the same goal is often attained in a more circuitous manner, bears a curious analogy to the *metayage* tenure of Italy and parts of France. Under this system the share milker practically agrees to do all the work of the farm in exchange for a given proportion, usually one-third but sometimes more, of the produce. Share

New Zealand

milking, and also the method of leasehold and purchase, proved the avenue to wealth and prosperity for many struggling farmers in the past generation when land values were steadily ascending; whether they will bear the test of a generation of falling prices, should such ensue, remains to be seen.

For short term credit the farming community has relied on the banks, the stock and station agents, and the various land agencies that have "proliferated," to use the current jargon, in recent years. It has been the curse of New Zealand farming that more profit could frequently be made by buying and selling land on the rising level of prices than by legitimate farming; and by this means many speculators in the past have profited exceedingly. This tendency manifested itself in an accentuated and hectic form during the years of post-war prosperity; and to cater for this demand, and incidentally to secure the extravagant commissions attendant on the sale of land, a swarm of land agencies arose whose main business was to induce men to buy and to sell land, and who frequently arranged the necessary finance to enable buyers to take up properties. This system must be regarded on the whole as distinctly mischievous, since credit was advanced, not primarily where it would afford advantageous assistance to the legitimate farmer, but where it would induce a profitable sale. Very little consideration was given to the future, it being tacitly assumed by all parties that the value of land would continue to rise indefinitely as it had done for so many years in the past. The consequences of this system, however, have been a fictitious rise in the price level for farming lands which is by no means justified by the average price level of raw products, and an extravagant and optimistic discount of a future that is no longer regarded through such rosy glasses. This is the real essence of the land problem in New Zealand; the level of values has been inflated by speculation to an artificial and dangerous degree, and the farmers are really

The Rural Credit Problem

casting about for some credit device that will enable them to preserve these fictitious values undiminished. The demand for rural credit is really, in most if not all cases, a demand for more inflation.

In contrast to the baneful activities of the land agents, though they to some extent carry on the same type of business, are the stock and station agents. Their functions are in a great measure legitimate, since they are the main source of circulating capital for the small farmer, and in early days they rendered great service to the pastoral industry in Australasia. They deal primarily in stock, farm implements, manures and general stores ; and by supplying these goods on credit they virtually constitute themselves the commercial bankers of the small farmer. In some cases indeed they carry on a business hardly distinguishable from banking, accepting deposits and paying out on customers' orders in a manner indistinguishable from the banking operations of deposit and discount. Unlike the commercial banks, they allow interest on call deposits, and have been able in this manner to attract much of the loose capital of the community.

The banks themselves do a considerable business in farming advances, though here, too, the distinction between long term and short term credit is maintained ; since the bank prefers its customer to take up as much capital as possible on first mortgage to some lending institution, and then makes the short term advance upon a general security, or series of securities, over the farmer's assets. It is not unusual, however, for the bank to take a first mortgage over the farm and allow the farmer to operate on that basis, but this only happens in the case of borrowers of some substance.

This system of short term credit has worked quite well until recently. It is, to be sure, expensive to the borrower and unnecessarily costly to the community, for the fact that private mortgages are usually for terms of five years necessitates frequent and vexatiously costly readjustments

New Zealand

of securities. While things were booming, however, little complaint was made, and the landed security at the basis of the whole system seemed to be appreciating in value all the time, but during the stringency of credit incidental to the recent depression it was found that many of the deposit-accepting companies had discounted the future in a manner altogether too optimistic, and legislation had to be passed to protect certain farmers' co-operative institutions carrying on a stock and station business from an embarrassing "run" by their depositors. The farmers, too, who had not minded being "tied" to a firm in periods of prosperity, resented the detailed interference which such firms were compelled to exercise, for their own protection, in depressed conditions. The plain fact was that the circumstances of the post-war boom had caused far too lavish a creation of credit, and those farmers who had contracted to buy land at the inflated post-war level were faced in many cases with ruin, should land values be allowed to fall to an economic level, or even, by reaction from too high a level, to one which was for the time being abnormally low.

Faced with a disinclination on the part of responsible financial institutions, particularly banks, to make advances on farm securities except on an extremely conservative valuation, the farmers through their associations have made an attempt to introduce rural credit on the co-operative model familiar in many other countries, with the characteristic and typically New Zealand difference, however, that they wish to shunt the burden on to the shoulders of the general community, and to induce a strongly anti-socialist Government, mainly dependent on the rural vote, to introduce a further drastic piece of State socialism and government spoon-feeding into our national economy. Co-operative credit associations on a voluntary basis have already existed for some years in parts of the country, on the principle which experience has shown to be essential, of joint and several liability, but they are restricted in

The Rural Credit Problem

their operations to a superior class of business, and while valuable as examples of what can be done, have as yet hardly influenced general business practice.

The Government, however, which in the matter of deflation generally has shown a firmness and continuity of policy for which it has hardly got sufficient credit, has kept its head amid the clamour of its own supporters for extravagant systems of State aided or subsidised credit to farmers. In 1922 the Rural Credit Associations Act provided for the creation and incorporation of rural credit associations for the purpose of making advances to farmers. Power is given to these bodies to receive deposits at interest and to make advances for definite purposes indicated in the Act. The members are jointly and severally liable, without limitation of amount, for the debts of the association, while advances are limited to £500 in any individual case. No use has been made of this statute.

This sop to the rural Cerberus proved insufficient to allay the agitation, now vigorously carried on by a number of prominent members of the New Zealand Farmers' Union, for further credit facilities, and a determined attempt was made to secure the institution and creation by statute of an Agricultural Bank, which should draw its capital in part from what was to be virtually a grant of £100,000 by the State and in part by the subscription of membership shares. In addition, the Bank was to possess the power to issue bonds to an amount not exceeding the aggregate of outstanding mortgage advances, a characteristic feature of rural credit in other countries, and was to exercise the usual functions of a commercial bank, including the power to buy and sell land necessarily incidental to its main function, and generally was to supply both long and short term rural credit.

The reception of this proposal was, generally speaking, distinctly unfavourable, the provisions for State subscription and subsidy in particular being denounced as a gift to one section of the community at the expense of the

New Zealand

whole, as indeed they are. It is generally felt that, while there is room for improvement in the machinery of rural credit—especially long term credit—this should be effected by the interested parties without the need for a government grant, and that there is no necessity for further machinery to operate short term credit. The provision for mortgage bonds, on the contrary, has been generally endorsed. No device, it is recognised, will make capital artificially cheap for the farmer, or for anybody else, when capital is scarce.

On October 29 last the Prime Minister in deference to the agitation of the Farmers' Union introduced the Farm Land Mortgages Association Bill, providing that the State should lend up to £150,000 to rural credit associations to be incorporated under the Act, the balance of capital to be obtained from the sale of bonds and the receipt of deposits. Subject to the limit of £150,000 the State was able to advance £2,000 to cover formation expenses and £50,000 to any one association, these loans to run for twenty years free of interest. This Bill, obviously introduced with a view to shelving the matter for the time being, met with a storm of disapproval from all sides of the House and throughout the country, while the bolder spirits of the Farmers' Union, who have been looking for unlimited government money to maintain rural inflation, were furious and scornful. The Bill was withdrawn.

It is probable that when conditions become more normal the agitation for an Agricultural Bank will die down, and that it will be seen that existing machinery, properly and judiciously operated, is ample to cover the requirements of short term rural credit. In regard to long period advances, however, the position is clearly not satisfactory. Owing to the continued operation of the moratorium on mortgages of land many investors have suffered loss, and most are timid; so that the private lender no longer looks on landed security with the same benignant eye as of yore; while in the debentures of local bodies, which are piling up indebtedness at a truly alarming rate, he sees a form of investment at

Exchange Rates

least as secure, and subject to much less technical and legal formality. In these circumstances the proposal for mortgage bonds will probably be brought to fruition, thus mobilising funds available for land advances without the inconvenience and cost of expensive five yearly readjustments ; and some institution, shorn of the objectionable subsidy features of the last proposal, and wholly distinct in principle and operation from the ordinary commercial bank, will be established to facilitate the flow of capital into mortgages of farm lands.

IV. EXCHANGE RATES

THE high prices recently enjoyed and likely to continue for our staple products, coupled with the cessation of the importation mania, have had the embarrassing effect of complicating very greatly the exchange position between New Zealand and London, and proving that the path even of financial prudence is not strewn with roses. For the nine months ending September 30 last, imports into New Zealand amounted to £36,137,756 and exports to £41,057,208. This surplus of exports over imports is indicative of the course of our recent and probably of our future trade for some time to come at least ; and it seems clear that even when the so-called invisible items, such as payment of interest and other mutual debits and credits are allowed for, the accumulation of New Zealand owned balances held by the London branches of the banks operating here is abnormally large and likely to increase rather than to diminish. In these circumstances the transfer of funds from the London market, where they are earning comparatively low rates in the short money market, to New Zealand, where they are urgently wanted and could be invested with much greater profit, has, owing to the régime of inconvertible paper money

New Zealand

obtaining both here and in Britain, become an operation attended by almost prohibitive expense.

In pre-war days New Zealand and Britain were both on the gold standard, and the precious metal was freely available for export in both directions, so that the cost of remitting funds in either could not in normal conditions exceed the cost of the actual transfer of specie. In actual practice gold did not flow to regulate the exchanges, and gold in small quantities was one of our normal exports, but the alternative possibility of sending gold, should it prove the cheaper form of remittance, imposed a limit on the movements of the exchanges and the price which the banks could charge for drafts. This safeguard is now removed, because gold is not freely available for export. The result is the piling up of large balances in London to the credit indirectly of our exporters, *i.e.*, our primary producers, which they cannot make available in New Zealand without ruinous loss on transfer.

The true explanation of this phenomenon is not generally understood by the public. The crudest view is that the associated banks have in concert raised the exchange rate for their own profit; but while it is clear that the banks fix the rate in common, it is no less clear that there are rigid limits to their power in this respect, because if their rates are felt to be higher than economic conditions warrant, buyers and sellers of exchange have the simple alternative of making their own arrangements through other London financial houses; and the fact that there is little evidence of many considerable outside transactions at a lower exchange rate seems to indicate that the banks are registering the economic rate but are not an important factor in fixing it. The position clearly is, if the purchasing power parity theory of exchange is true—and it is very generally accepted among financial specialists at the present time—that New Zealand money is worth more than British money at present because we have carried the process of deflation of our paper further than has been done in

Exchange Rates

Britain, and our pound is closer to gold parity than British sterling. If this is so our inflated London balances are the effect and not the cause of the high exchange rate. There is no general recognition of this among our business men, but it seems undoubtedly to be the correct view of the position.

It would be possible, if desirable, to deplete the London balances in various ways. A loan of the desired amount, for instance, could be placed on the local market on suitable terms, and credits against London funds accepted therefor. The London funds could then be paid out in reduction of a portion of our debt in Britain so that the balance there would be depleted and a corresponding amount of our national debt transferred to New Zealand holders. The objection to this course is that it would be but a temporary palliative, since with the realisation of a highly prosperous season the London balances would again accumulate; while it would immobilise in government loans much capital sorely needed for the conduct of industrial and farming operations in this country. The traditional effect of the present position of the exchanges is to discourage exports and encourage imports, precisely the effect that we do not wish to see realised. Until gold is again freely available for export commitments, not necessarily for internal circulation, exchange complications of this sort will have to be faced, while the time for anything approaching a free flow of gold seems still to be a long way in the future. In the meantime it is greatly to be desired that no quack remedy should be applied to the situation, which is the inevitable result of the different degree of deflation attained here and in Britain. Few would wish to see further inflation applied here, or the situation "corrected" by a fresh mania of importation. Apart from this complication the economic outlook is excellent.

New Zealand. December 19, 1924.



H
boma

S
EA



